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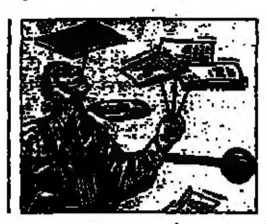

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WORLD NEWS

UN bows to eviction order and pulls US staff out of Iraq
The United Nations has decided to withdraw the remaining Americans on its staff in Iraq, bowing to an eviction order issued a month ago in which Baghdad declared that it could not guarantee the safety of US and UK citizens. International, Page 6

Nordic submarine venture
Three Scandinavian shipbuilders have unveiled plans to collaborate on a submarine programme in the first step towards joint defence procurement in the Nordic region. Europe, Page 3; Britain may build warship alone, Page 7

US in beef row with Brussels
Charlene Barshefsky, the US trade representative, urged the European Commission to begin negotiations with Washington on their dispute over hormones in beef or risk trade sanctions. Trade, Page 6

Concern grows for N Ireland peace
The British government has sent out soothing messages about the Northern Ireland peace process, but there is concern that the deadlock over the surrender of weapons could destroy the negotiations. Page 12; Calls for monitor of beatings, Page 7

Commission to reclaim CAP funds
The European Commission is to claw back nearly €500m ($427m) from European Union countries after finding "irregularities" in the dispersal of Common Agricultural Policy funds. Europe, Page 3

Reluctant senators return to trial
After a few days of being able to walk and talk freely on Capitol Hill, US senators will today again be forced to sit in silence through the final phase of President Bill Clinton's impeachment trial. Americas, Page 4

Fears raised for internet freedom
Debate over freedom of speech on the internet has been sparked by a US federal jury's award of $107.9m in damages to clinics and doctors targeted by anti-abortion activists, who created a web site and "wanted" posters. Americas, Page 4

Angola readies for new battles
Angolan government forces and their Unita rebel foes are preparing for fresh battles following the capture by Unita last week of the northern town of Mbanza Congo. International, Page 6

Islamic law for Chechnya
Chechnya's president has ordered the establishment of Islamic law in the breakaway Soviet republic, sharply curtailing parliament's powers.

Russia plea on millennium bomb
Russia said it needed up to $3bn to tackle the Year 2000 computer problem, and appealed to the US to help fix computers that control stockpiles of nuclear weapons.

Seventeen executed in China
China has executed 17 convicted murderers, grave robbers, rapists and smugglers in the run-up to the Lunar New Year holidays.

Sentences cut for Israeli killers
Israel has commuted the sentences of several Jews serving long sentences for killing Arabs. International, Page 6

BUSINESS NEWS

Aeroflot board poised to purge management team
Aeroflot's board is ready to launch a management restructuring at the Russian airline which would sideline the influential Boris Berezovsky. Page 13; Corruption epidemic, Page 2

Goodyear will lay off up to 2,800 of its 97,000-strong global workforce in measures announced hours after Goodyear and Japan's Sumitomo Rubber Industries signed a letter of intent creating a strategic alliance. Page 13; Making tracks for Japan, Page 11; Picture, Page 12; Analysis, Page 18

Elf Aquitaine, the French oil company, expects to show an exceptional profit of about FFr7bn (€1.07bn, $1.21bn) in its 1999 accounts as a result of the planned merger between Sanofi, its majority-owned drugs arm, and Synthélabo, another French pharmaceuticals company. International companies, Page 16

Thomson-CSF of France cut its equity in Indra, the Spanish electronics group, from 25 per cent to 10.5 per cent and paved the way for the Spanish government's market sale of its 66 per cent stake in the group. International companies, Page 16

Senior executives from each of the 14 financial institutions that bailed out Long-Term Capital Management last summer are scheduled to meet today in New York amid growing signs of tensions at the hedge fund. American companies, Page 14

Daniel Bouton, chief executive of Société Générale, defended the French bank's choice of Paribas as a merger partner and said the combined SG Paribas would be "built for growth". Page 13; Interview, Page 16

Long-Term Credit Bank, the nationalised Japanese bank, is seeking a buyer for its operations in what will be a test for the government's attempts to press ahead with banking reform. Asia-Pacific companies, Page 17

Anglogold, the world's biggest gold mining company, boosted pre-tax profit to R2.88bn ($476m) in the year to December 1998 from R2.29bn in 1997 despite the weak gold price. International companies, Page 16

Deutsche Bank is in talks with Canada's Newcourt Credit asset finance company on a deal that could give the Canadian group control of a portion of the bank's leasing business. Page 13

A dispute broke out between Fiat and Volvo over the terms of a putative $13bn-$14bn takeover offer for the Swedish automotive group. International companies, Page 16; Lex, Page 12

Demand for currency analysts is soaring as European funds boost overseas assets amid recent exchange rate volatility. Page 13; Lex, Page 12

Brussels urges Italy to revise debt reduction programme

By Peter Norman in Brussels

The European Commission yesterday accused Italy of excessive optimism in its budgetary planning and urged Rome to revise its programme for cutting its debt and deficits to meet the needs of economic and monetary union.

The commission said growth was likely to be more gradual than the forecast acceleration from 1.8 per cent last year to 2.5 per cent in 1999 and just under 3 per cent in the following two years.

But Mario Draghi, director of the Italian Treasury, said this year's deficit could be on target in spite of slower growth, because of lower interest rates in the euro-zone.

Yesterday's commission report on Italy was the most critical of four reviews of EU economies under the stability and growth pact.

The pact has set a medium term objective of budgets "close to balance or in surplus" for EU countries in and outside the euro-zone.

The EU's Brussels-based executive argued that Italy's macroeconomic assumptions, framed in May last year, "now seem over optimistic".

It warned the country might have to take additional corrective measures to meet its general government deficit target of 1 per cent of gross domestic product in 2001.

Lower growth in 1998 and this year posed particular risks to the plan to cut the deficit to 1 per cent from 2.6 per cent of GDP last year and 2 per cent of GDP this year.

The commission also expressed concern that Portugal, another Emu member, made no progress in consolidating its budget last year, while its medium term deficit target of 0.8 per cent of GDP in 2002 was "a minimum position" in the light of Portugal's strong growth.

By contrast, Britain and Sweden, both outside Emu, were told that their budgetary policies conformed with the stability pact.

The commission's findings will be discussed by EU economics and finance ministers in Brussels next Monday.

Yves-Thibault de Silguy, the commissioner responsible for monetary affairs, underlined that any budgetary correction to be made by Italy would be modest.

While the expected growth slowdown could add between 0.35 and 0.4 percentage points to its deficit-to-GDP ratio, other factors such as lower interest rates would have an offsetting effect, he said.

But Mr Draghi struck a more optimistic note at a separate meeting of the EU's economic and financial committee in Brussels.

He said Rome's latest calculations suggested that this year's deficit could be 1.9 per cent of GDP or 2 per cent, in line with its target, despite an expected slowdown in growth to 2.1 per cent.

In its review of the UK, the commission gave carefully worded encouragement to supporters of British participation in the euro.

The commission recommends a policy aimed at exchange rate stability "which, in turn, should help reinforce a stable macroeconomic environment".

Former vice-president Dan Quayle announcing yesterday that he has formed an exploratory committee towards seeking the Republican nomination for president. He said he would run a campaign concentrating on issues.

Chinese launch rival to Viagra

By James Kynge in Beijing and James Harding in Fujian

A Chinese herbal drug company has launched a rival to Viagra, the male potency drug, called "Weige" or Big Brother.

A packet of eight of the pills costs Rmb90 ($11) – far cheaper than Viagra, which is made by Pfizer, the US pharmaceutical company.

The new Chinese product puts Pfizer in a delicate position because it has registered the Chinese name "Wei Er Gang" (fierce and strong) in Taiwan, where it is already on sale.

Pfizer would prefer to use "Weige" in the mainland market, but it faces a wait for official approval in China whereas its herbal rival is not required to undergo clinical trials.

According to officials at the national trademark office in Beijing, Shenyang Feilong Health Products company has received approval to trademark the name "Weige". Company officials are aware of the potential of their product.

"We are going to sell 100m pills this year," said Jiang Wei, chairman of Shenyang Feilong, which is based in China's north east. "Our Weige works better than Viagra, and it is all herbal so it does not have any side-effects."

The drug has not undergone independent clinical trials, but Mr Jiang said tests had been performed on volunteers.

The product's packaging is designed to look foreign, featuring a photograph of an Adonis statue, flying doves and cavorting women in bikinis.

Along the bottom of the packet it says in English: "Studied and supervised by Wisdom (USA) Development Co Ltd".

At Venus, a new kind of store in the coastal Chinese township of Changle, in the south-eastern province of Fujian, smuggled Viagra pills are stored in a drawer with only a discreet photograph to inform customers the pill is in stock.

The single pill that was brought out from behind the counter at Venus, one of the many new sex and personal health products shops, cost Rmb430 – which is just a little less than the local monthly wage and nearly five times the cost in the US.

Daewoo's S Africa chief is shot dead

By Victor Mallet in Cape Town

The chief of the South African operations of Daewoo, the South Korean conglomerate, was found shot dead in his car yesterday in what seems to have been a bungled hijack attempt.

Kwon Yong-koo, who came to South Africa a year ago to revive Daewoo's electronics and motor-importing businesses, was apparently shot through the head at about 10.30pm on Tuesday after having dinner with the South Korean ambassador.

The 50-year-old executive was found at the wheel of his car at the entrance to the compound where he lived in the northern suburbs of Johannesburg. The window on the driver's side had been shattered by the bullet.

Pieter Coetzee, general manager of marketing and sales for Daewoo Motor in South Africa, said Mr Kwon's death "will definitely have a message" for the international community.

The South Korean embassy said: "Crime is a deterrent to foreign investment, and the victim in this case is unfortunately a high-profile figure. This incident can have a negative effect on Korean business activities in South Africa."

In the first six months of last year, there were more than 7,000 vehicle hijackings in South Africa, more than 4,000 of which were in Gauteng, the province that includes Johannesburg and much of the country's industry.

Although police said they were treating Mr Kwon's death as a failed hijacking, one police officer said he thought it was an assassination, rather than an untargeted crime.

The case was odd because Mr Kwon's mobile telephone, his wallet, and the car itself had not been stolen.

South African opposition parties reacted with fury to the killing, accusing the ruling African National Congress of failing to curb crime since it was elected in 1994.

Eni and Gazprom to build $3bn pipeline

By Paul Betts in Milan and Robert Corzine in London

Eni of Italy and Gazprom of Russia will go ahead with a joint $3bn project to build the world's deepest underwater pipeline to ship natural gas from Russia to Turkey's Black Sea coast, in spite of the risk of US opposition.

There have been strong suggestions in recent weeks that the US government was concerned that the "Blue Stream" project risked undermining Turkey's commitment to competing gas pipeline ventures in the Caspian Sea.

Washington has been lobbying strongly for an "energy corridor" from the Caspian Sea region to Turkey for both oil and gas export pipelines.

But the Italian and Russian groups said yesterday they had signed a memorandum of understanding to proceed with the 400km pipeline and a compressor station near Dzhubga on Russia's Black Sea coast.

Turkey is seen as the fastest growing gas market in Europe, and Gazprom – the world's biggest gas producer – has been especially keen to establish a direct link. At present Russian gas exports to Turkey pass through Ukraine, which has often siphoned off supplies.

Analysts said Gazprom was also keen to prove it could launch a major export scheme even though, like other Russian companies, it is effectively cut off from international capital markets because of Russia's default on its domestic debt last year.

The pipeline – to be laid in water depths of as much as 2,200 metres – will be 30 per cent deeper than any existing subsea pipeline. Gazprom and Eni will each hold a 50 per cent interest in the project. Although they declined to disclose the value of the venture, oil industry analysts said the entire project was expected to involve nearly $3bn.

The two companies said 20 per cent of the overall cost would be covered by equity in a new company, established to develop and manage the project. The remaining 80 per cent would be financed through debt, mainly through Italian banks. A consortium of banks would provide credit guaranteed by SACE, the Italian export credit agency, and other similar institutions.

Although some analysts have questioned the economics of the project, Gazprom executives insist that Blue Stream is more competitive than conventional land-based pipelines.

Work will begin as soon as financing is in place and is due to be completed by the third quarter of 2000. Saipem, Eni's engineering and contracting company, has been awarded the construction contract.

WORLD MARKETS

STOCK MARKET INDICES			GOLD		
New York: Lunchtime			New York: Comex		
Dow Jones Ind Av	9319.69	(+45.57)		$288.0	(289.3)
NASDAQ Composite	2475.79	(+12.57)	London:		
Europe and Far East				$288.85	(289.45
CAC40	4188.84	(-54.73)	DOLLAR		
DAX	5085.86	(-81.21)	New York: Lunchtime		
FTSE 100	5940.3	(-72.7)	£	1.6474	
FTSE Eurotop 300	1209.16	(-15.54)	€	0.8636	
Nikkei	14,161.31	(-188.52)	SFr	1.4147	
US Lunchtime RATES			Y	112.815	
Federal Funds	4.5%		London:		
3-mth Treas Bills: Yld	4.501%		£	1.6474	(1.6460)
Long Bond	100⅞		€	0.8643	(0.8807)
Yield	5.229%		SFr	1.3881	(1.4093)
OTHER RATES			Y	113.505	(112.55)
UK: 3-mo Interbank	5 15/32%	(5 13/32%)	Tokyo Close		Y 112.385
UK: 10 yr Gilt	137.41	(137.36)	EURO (London)		
BBA Euroribor	3¼%	(same)	$	1.1571	(1.1355)
Germany: 10 yr Bund	107.74	(107.71)	£	0.7023	(0.6896)
Japan: 10 yr JGB	95.998	(95.869)	Y	131.331	(127.795)
NORTH SEA OIL (Argus)			SFr	1.6061	(1.6002)
Brent Dated	$10.82	(10.44)			

London · Leeds · Paris · Frankfurt · Stockholm · Milan · Madrid · New York
Chicago · Los Angeles · Tokyo · Hong Kong

Euro-zone target price €2.15. Prices in local currency as shown

Bahrain	Din1.300	Iceland	Ikr285	Oman	OR1.75
Belgium	BFr90(€2.23)	Italy	L3900(€2.01)	Poland	Zl 10.00
CIS	US$4.00	Jordan	JD1.75	Portugal	Esc320(€1.60)
Croatia	Kn19.00	Kuwait	KWD0.750	Qatar	QR13.00
Denmark	Dkr18.00	Latvia	Ls1.85	South Africa	R16
Estonia	EKr34.00	Lithuania	Lit21.00	Spain	Pta325(€1.95)
Finland	FmK13.00(€2.19)	Lebanon	LBP3,500	Sweden	SKr20.00
France	FFr14.00(€2.13)	Luxembourg	LFr90(€2.23)	Switzerland	SFr3.50
Gibraltar	£0.85	Morocco	Dh18.00	Syria	S£80.00
Greece	Dr300	Netherlands	Fl 4.80(€2.18)	Tunisia	Din2.000
Hungary	Ft360	Norway	NKr19.00	UAE	Dh13.00

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US expects to send few troops to Kosovo

By Stephen Fidler in Washington and Guy Dinmore in Belgrade

The US would expect to send no more than 2,000 to 4,000 ground troops to Kosovo as part of any Nato force sent to preserve a peace agreement there, Henry Shelton, chairman of the US joint chiefs of staff, said yesterday.

The separatist ethnic Albanian Kosovo Liberation Army has already agreed to attend peace talks beginning in France this weekend. Western mediators are confident that Belgrade will also send a high-level delegation to France, although rifts within Serbia's ruling coalition could be exposed in a parliamentary debate on the topic today.

Gen Shelton made clear that the size of any Nato contingent was still being worked out. But he told the US Senate armed services committee that a Nato ground force of 20,000 might require a US contribution as low as 2,000 to 4,000. "And I would see that being the maximum number that we would be asked to contribute, even if they decided to go in with 30,000," he said.

British and French troops would be expected to make up the bulk of any force, while Germany said yesterday said it would begin to train 800-1,000 troops for action in Kosovo.

William Cohen, US defence secretary, said other Nato countries had "indicated they won't participate in that military operation unless the United States also participates".

He told the committee that a US commitment to ground forces should be relatively small – given that the US was undertaking "a very large load" in providing air power. He also said ethnic Albanian rebels leaders would not feel confident about a Nato force that did not include the US.

But he said he would not support sending in ground forces without a real commitment on behalf of the Serbs and the rebel forces to an interim agreement to cease hostilities.

US envoy Chris Hill, carrying the threat of Nato intervention, yesterday urged Serbian President Milan Milutinovic to give a positive response to the international community's summons to the peace talks. Wolfgang Petritsch, representing the European Union, said after meeting Nikola Sainovic, a deputy prime minister in the federal Yugoslav government, that Belgrade was seriously considering taking part.

Today's Serbian parliamentary session is little more than a formality but could reveal the depth of divisions within the government.

The ultra-nationalist Radical party, brought into the ruling coalition with the onset of war in Kosovo nearly a year ago, is opposed to peace talks held outside Serbia and has challenged Nato to go ahead and bomb Serbia.

Diplomats also admit there is a strong likelihood that the Contact Group peace plan on offer will be rejected by both sides.

The five main western powers and Russia are proposing wide-ranging autonomy for Kosovo for a three-year to five-year period, with substantial powers wielded by the head of the international monitoring mission there.

Nato air strikes are seen as a last resort to stop the war.

Corrupt officials 'epidemic in Russia'

By Andrew Jack in Moscow

Russia's acting chief prosecutor yesterday criticised the courts for being too lenient and said there was an explosion in corruption among officials that ranked the country among the highest in the world.

"Corruption among Russian bureaucrats has reached unprecedented levels," said Yuri Chaika, who was appointed after the resignation of Yuri Skuratov on Tuesday for what he said were reasons connected to ill-health. "Only Venezuela, Nigeria, Pakistan and Cameroon do worse than us."

The remarks are the latest in an escalation of action by investigators and of rhetoric by top government officials in the past few weeks which have concentrated on the need to clamp down on corruption and tax evasion.

Mr Chaika said more than 2,000 officials had been sentenced to varying prison terms on corruption charges last year, but complained that many others had escaped jail.

On Tuesday, a high-profile raid by the general prosecutor's office, accompanied by armed and hooded para-militaries, took place at Sibneft, an oil group linked to the "oligarch" Boris Berezovsky.

But Sibneft's executives stressed that investigators were looking into a security company with which they said they had no connection.

Mr Berezovsky currently serves as executive secretary of the Commonwealth of Independent States, which groups together 12 countries in the former Soviet Union.

Yevgeny Primakov, the prime minister, said on Sunday that space would be made available in Russian prisons to ensure that those guilty of economic crimes were punished.

"It is now necessary to fight economic crimes vigorously," he said on Russian television, accusing "some groups of people" of "plundering the state.

"If we cannot pay doctors, teachers and so on, how can we tolerate tax dodging, how can we tolerate such things as when non-existent sand is being sold by cheats to one another just to make deductions from VAT?"

Mr Primakov also attacked Mr Berezovsky for saying last week that trust in the government was running out. Mr Primakov argued that because of his position Mr Berezovsky should not have attacked the head of government of one of the CIS states.

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Germany adapts to informality

The new chancellor appears to have settled into government but he cannot afford to relax too much, writes **Ralph Atkins**

Stiff formality has no place. Gerhard Schröder puffs cigars. So does Bodo Hombach, the chancellor's chief aide, in his office at the other end of the Bonn chancellery's north wing. Their staff generally refrains – but informal forms of address predominate in conversation. The atmosphere is sometimes chaotic, the pace frantic.

After exactly 100 days, government under Mr Schröder has developed a different style from that of Helmut Kohl, his predecessor. It appears haphazard and makeshift – and not just because in a few months the government permanently moves 600km to Berlin. Mr Schröder's debut has been fraught and undisciplined.

The 54-year-old former state premier of Lower Saxony, in northern Germany, arrived in Bonn determined to import his pragmatic style.

Relatively simple to implement were Social Democratic party (SPD) election promises on a youth employment programme and tax reforms pitched at working families.

But Mr Schröder's coalition with the Greens has seen run-ins between ministers, and confusion on a range of policy ideas that were not fully formed – particularly on withdrawing from nuclear power. Businesses are alarmed at the extra tax burden many face; some reforms – including energy taxes – are having to be re-worked.

Meanwhile, the chancellor has had to work on his relationship with Oskar Lafontaine, the ambitious SPD party chairman and finance minister. And his inexperience in foreign affairs has shown in often clumsy mistakes, for example, provoking the UK on European tax harmonisation or France on nuclear waste transport, which contrasts with the tough-minded finesse of Mr Kohl.

However, there is now confidence in the chancellery that since Christmas the chancellor has found a *modus vivendi* within the federal coalition that can correct the negative headlines associated with Mr Schröder's self-acknowledged "false start".

The chancellor himself says he wants more "composure". "Perhaps we overlooked that in 100 days you can't fulfil all election promises that actually need the lifetime of a parliament," he says. As important, perhaps, Mr Schröder's aides argue, are the personal relationships at the top of the government, which they say have been put on a basis that makes his alliances workable.

His relationship with Joschka Fischer, the Green foreign minister and former 1968 revolutionary, has been stronger than expected. There is a clear affinity between two politicians who have 1970s radical roots and have matured into pragmatists. Mr Fischer's caution and emphasis on strong transatlantic relations have largely averted coalition splits on foreign policy.

More difficult has been Mr Lafontaine, the former premier of Saarland, on the French border, whose ideological drive is apparent in his calls for a demand-orientated economic policy. But damaging public splits have been largely avoided so far. Both, say aides, realise their mutual success depends on discipline; there is a "balance of power".

Mr Schröder has taken a more direct stance with other cabinet ministers. Jürgen Trittin, the Green environment minister, with whom Mr Schröder worked in government in Lower Saxony, has taken a confrontational course over shutting Germany's 19 atomic power stations – reflecting the issue's fundamental importance to the Greens. Mr Schröder responded with public put-downs, accusing him before Christmas of "self-important posturing". Mr Trittin retreated wounded.

Gerhard Schröder: his debut has been fraught and undisciplined

It is a balancing act. This week, Werner Müller, a former electricity industry executive who is now economics minister, was admonished by the chancellor after suggesting the withdrawal from nuclear power might be reversed at a later date.

The whole process requires an enormous amount of energy by Mr Schröder and a chancellery permanently on crisis prevention alert. It has brought rewards: an Emnid opinion poll in this week's Der Spiegel magazine showed Mr Schröder scoring highly for his ability to "get things done". The SPD had increased its support by one percentage point since September's election; 75 per cent were "rather or very" pleased with the work of the chancellor.

Can the relative peace last? The Greens are still agitating for the earliest possible closure of nuclear power plants. Union demands for substantial wage increases are threatening to overshadow Mr Schröder's freshly launched "alliance for jobs", bringing together industry, unions and the state. Meanwhile, industry is lobbying hard for a tax reform package that cuts its burden; it is unclear if Mr Schröder can deliver on a pledge to cap corporation taxes at 35 per cent from next year.

All could be subjects of damaging conflicts in weeks to come. Mr Schröder cannot relax too much.

Astérix goes into battle with Hollywood

French actor Gérard Depardieu plays Obélix Reuters

France's costliest film production – putting the nation's favourite cartoon character Astérix on celluloid – has turned into a symbol of the battle by French cinema to win back audiences from their ever-growing allegiance to Hollywood, writes Robert Graham in Paris.

The FFr280m (€42.6m, $48.4m) film, *Astérix and Obélix against Caesar*, went on general release yesterday amid mixed reviews. But media attention has focused on the rearguard action by the French cinema to ward off the challenge from US blockbusters.

As a result the heroic battle of Astérix and his fellow Gauls against Roman imperialism has become an easy metaphor for what Le Monde called the struggle against "the imperialism of the American cinema".

American films account for more than 50 per cent of tickets sold while French-made films win only 34 per cent of the cinema audience. But last year *Titanic* pushed the proportion of tickets sold for American films to almost 60 per cent. "1998, the year of *Titanic*, seriously undermined the idea that the French cinema could resist Hollywood," observed Libération yesterday.

Astérix also appears on the screens in the wake of a bitter dispute between France and the US over "cultural imperialism", which centred on liberalising investment and reducing state subsidies in the cultural field. France provides an annual FFr270m in direct subsidies to films and a further FFr71m as advances against receipts.

The film's producer, Claude Berri, has produced such successes as *The Bear* and *Jean de Florette*. But the financial backing for his latest work from France, Germany and Italy comes on the basis of the phenomenal worldwide sales of the Astérix cartoon books. Some 279m books have been sold in 77 languages since 1959.

The French actor Gérard Depardieu plays a larger than life Obélix and the model Laetitia Casta is the female star.

The film's budget is almost 10 times the average spent on the 160 films a year that are made in France. The distributors have also taken the unprecedented step of a mass release of almost 800 copies of the film.

Swiss bankers try to polish up their image

By William Hall in Zurich

The gnomes of Zurich, bruised by endless jibes about their arrogance and secretive past, are preparing to counter-attack. They plan to send a high-powered delegation to London in April to sell the advantages of Switzerland as a financial centre.

Swiss bankers are used to hosting investment "roadshows" for their clients in the world's financial centres. But the London meeting will be the first time that they have hosted an international roadshow to advertise their own "unique selling points".

The banks produce more than 10 per cent of Switzerland's gross domestic product and manage an estimated 30 per cent of the offshore assets of the world's wealthiest individuals. There has been concern that the endless criticism about the behaviour of the Swiss banks during the second world war was starting to damage their reputation for honesty and integrity.

The launch of the euro has also led to worries that it will eventually replace the Swiss franc, which is seen as one of the keys to long-term success as a financial centre. The City of London's decision to host its own "roadshow" in Zurich last year has also shaken the Swiss.

Pascal Couchepin, economy minister, will head the delegation to London, which will include Bruno Gehrig, deputy governor of the Swiss National Bank, Georg Krayer, president of the Swiss Bankers' Association, and Antoinette Hunziker-Ebneter, chief executive of the Swiss Exchange.

"We have a good brand that is worth being sold," said Jean-Marc Felix, head of public affairs at the Swiss Bankers' Association (SBA).

Mr Felix, who came from Kuoni, a successful Swiss travel group, was brought in by Professor Niklaus Blattner, the SBA's new chief executive, to help rejuvenate a trade association that has traditionally been far more interested in policing the rule book than polishing the banks'international image.

Switzerland's decision to start marketing itself as a financial centre under the "Switzerland plus" slogan reflects its insecurity. Its traditional competitive advantages of low inflation, a firm currency and political stability, are no longer unique. Its bank secrecy laws, one of the country's most powerful advantages, are under increasing scrutiny and Switzerland's failure to abolish stamp duty on securities transactions hasled to a loss of business.

Privatisation dispute erupts in Warsaw

By Christopher Bobinski in Warsaw

A dispute over privatisation within Poland's embattled centre-right coalition government came into the open yesterday when Emil Wasacz, the treasury minister, rejected charges by Leszek Balcerowicz, the deputy premier, that the pace of sales had slowed and was threatening to halt economic restructuring.

Mr Wasacz, who belongs to Solidarity Electoral Action (AWS), the senior coalition partner, said he "completely disagreed" with Mr Balcerowicz, who is the deputy premier in charge of the economy and leader of the pro-business Freedom Union party.

Mr Wasacz was replying to a memorandum by Mr Balcerowicz to the cabinet. The document, which has been leaked to the press, said that the slowing rate of privatisation threatened Poland's ability to compete with western European industries. The situation could a bring a crisis in the economy, Mr Balcerowicz wrote. He said a lack of progress in areas such as steel would bring a deterioration in relations with the European Union, which wants to see the steel industry in private hands and free of subsidies.

Mr Wasacz argued yesterday that last year's privatisation revenues, at just over 7bn zlotys ($2bn), were higher than planned and that preparations had been set in train for new disposals this year. The 1999 budget foresees privatisation revenues worth 15bn zlotys.

Mr Wasacz did not deny that the number of companies privatised had been low and that the pace of structural change in the economy had slowed. He said a low budget allocation last year for privatisation fees had meant that the number of transactions had been limited.

This year, he said, the sale of the Katowice and Sedzimir mills would go ahead and a minority stake in the Plock Refinery, one of the country's largest companies, would be floated on the Warsaw stock exchange.

The government is also planning the sale of a stake of between 25 per cent and 35 per cent of Telekomunikacja Polska SA, the listed telecoms operator, to a strategic investor, and the sale of a 52 per cent stake in the Pekao SA bank. The sale of the PZU state insurance company and the small Bank Zachodni are also planned.

NEWS DIGEST

INCOME FROM SAVINGS AND INVESTMENTS

Banker backs Brussels on withholding tax

The European Commission's plans for a minimum 20 per cent withholding tax on income from savings and investment gained unexpected support yesterday from one of Europe's leading bankers.

Rolf Breuer, chief executive of Frankfurt-based Deutsche Bank, told businessmen in Brussels that taxes on investment should be harmonised in Europe. He brushed aside objections that the withholding tax would cripple the international bond market and thus damage the city of London, where Deutsche Bank employs about 3,000 people.

Mr Breuer pointed out that the plans of Mario Monti, the commissioner responsible for taxation, would affect private investors and not corporations. "What we are talking about is tax evasion and I would be more than happy to do away with that once and for all," he said.

Mr Breuersaid American based investors were subject to very stringent controls.

There was no chance of their avoiding US tax and yet US capital markets were thriving. He admitted that Mr Monti's initiative posed problems with existing international bonds. But he favoured subjecting future international bond issues to the withholding tax.
Peter Norman, Brussels

GENETICALLY MODIFIED CROPS

Chicory safety endorsed

Chicory could become the first genetically modified salad crop to be licensed for sale in the European Union after scientists found there was no evidence that it would harm human health or the environment.

It is the 12th genetically modified plant to be endorsed by the EU's scientific committee on plants. The European Commission, the EU's executive, generally follows the committee's advice.

However, genetically modified crops are increasingly controversial in some countries and environmental groups are pressing for a ban on them. **Michael Smith, Brussels**

PUBLIC BROADCASTING FINANCES

Brussels issues injunctions

The European Commission yesterday issued the French, Italian and Spanish governments with injunctions to provide detailed information on the financing of public broadcasters. The move follows complaints from private television stations that they are being unfairly undercut by their public rivals.

Telecinco and Antena 3 in Spain, RTI in Italy, and TF1 in France allege that public broadcasters are using state funding or guarantees to undercut advertising rates and to outbid them on programme rights. They say these practices flout EU rules on state aid.

The complaints date back several years but the Commission did not reach a verdict, claiming that it did not have sufficient information. The private broadcasters then sued the Commission for failing to act.

The European Court condemned the Commission in the Spanish case and judgment on the French case is still awaited. **Emma Tucker, Brussels**

● State aid of €120m ($136m) destined for six Fiat factories in Italy is under investigation by the Brussels competition authority, the European Commission announced yesterday.

Brussels fears the aid does not comply with EU rules on aid to the car sector but has waited more than a year for information from the Italian authorities. **Emma Tucker**

HUNGARIAN ECONOMY

Balance of payments warning

Hungary's balance of payments risks running out of control if there is a western European recession, according to a report by the Organisation for Economic Co-operation and Development published yesterday.

The report sounds a general warning note about the Hungarian economy, one of the most successful in the former communist bloc, while generally praising economic progress.

In the wake of the Russian crisis – when there was a temporary outflow of foreign capital from Hungary – investors have shown they are averse to risk in Hungary, the report warns. "This risk is heightened by recent developments in the trade balance," it says.

The report also suggests the government might overshoot its budget deficit target this year or next. Tax reductions or improvements of benefits for families have permanently increased the government's spending responsibilities, while reductions in the government's responsibility to the state pension scheme and other reductions are only temporary. **Robert Wright, Budapest**

TURKISH MAFIA CASE

Former minister acquitted

A former Turkish cabinet minister was acquitted yesterday of charges of aiding and abetting the mafia.

Eyup Asik resigned from the government in September when television stations broadcast his taped conversations with a leading mafia boss. The scandal eventually led to the collapse of the government of Mesut Yilmaz in November. The court ruled that the conversations did not constitute a crime.

The acquittal means Mr Asik can run in the local and parliamentary elections scheduled in April. He is a member of Mr Yilmaz's centre-right Motherland party.

Mr Yilmaz still faces a parliamentary investigation on his ties with the mafia. **AP, Istanbul**

● Turkey's constitutional court yesterday opened a case to outlaw the country's main Kurdish party for alleged links to Abdullah Ocalan's guerrilla group.

The chief prosecutor, Vural Savas, accused the People's Democracy party (HADEP) of recruiting guerrillas for the Kurdistan Workers' party (PKK). **Reuters, Diyarbakir**

GERMAN METAL INDUSTRY

Workers receive new offer

German employers sought yesterday to defuse a growing dispute in the metal industry by offering workers a wage increase this year of 2.3 per cent, slightly higher than their first proposal, plus 0.5 per cent in one-off benefits. Representatives of the metalworkers' union, IG Metall, will consider the offer, made in the state of Baden-Württemberg and considered a benchmark for the rest of Germany, before holding another round of talks with the employers next Tuesday.

IG Metall has asked for a wage increase of 6.5 per cent, saying its members have suffered five years of falling real wages and now deserve a share of the industry's profits. Thousands of metalworkers continued to hold short work stoppages across Germany yesterday, affecting above all the car and electrical industries. **Tony Barber, Frankfurt**

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Brussels to claw back CAP funds

By Michael Smith in Brussels

The European Commission is to claw back nearly €500m ($567m) from European Union countries after finding "irregularities" in the dispersal of Common Agricultural Policy funds.

The decision follows recent allegations against the Commission of lax financial control in non-farm sectors.

The Commission has long contended that the highest EU rates for irregularities including fraud are found in budgets managed by member states.

The €493m which the Commission decided to claw back yesterday related to CAP funds paid out and controlled by individual countries.

Franz Fischler, the farm commissioner, said the action demonstrated the Commission's controls to prevent payment irregularities in member states were yielding results.

Recent opinions from the European Court of Auditors suggested that the Commission was recovering most or all of agricultural money paid out incorrectly by member states, Mr Fischler said.

Separately, the Commission recommended a status quo for farm prices for 1999-2000.

Technical adjustments are being made in the sugar, arable crops, wine and seeds regimes but other areas will be untouched.

The decision is a disappointment for industrial users of sugar who have been campaigning for a 16.5 per cent cut in prices guaranteed to sugar processors.

CIUS, an organisation representing users, said the prices failed to reflect the lower input costs and increased labour productivity enjoyed by processors.

Yesterday's clawback decision came as the Commission, the EU's executive, approved agricultural expenditure of €34bn in 1995. They rejected €404m of spending in that year and said it had decided to recover a further €89m declared in subsequent years relating to the same cases.

Spain suffered the largest 1995 clawback, with much of the €129m "correction" relating to controls in the arable sector.

France incurred a €99m penalty, most of it for "inadequate checks" on subsidy applications in cereals. The UK incurred the third highest, €50m.

Luxembourg was the only country which will keep all the 1995 money it dispersed.

Among agricultural sectors arable crops incurred the biggest penalty, €144m, with meat and fish next at €103.5m. The Commission said approval or rejection of a further €197m paid out by member states had been postponed pending the outcome of conciliation.

Stiff test for Turkish bank reforms law

By Leyla Boulton in Ankara

The Turkish parliament is today expected to renew attempts to pass a law to strengthen banking supervision, in a move eagerly sought by the International Monetary Fund and a number of foreign and Turkish banks.

The new law aims to set up an independent banking regulator in charge of issuing licences and supervising the country's 75 banks.

The legislation has become more pressing since the central bank's takeover last month of Interbank, the country's twelfth largest bank, which ran into liquidity problems after exceeding statutory limits for lending to the textile group which owned it. Several Turkish banks are owned by conglomerates, a fact described by one banker as a "blessing or a curse" depending on the strength of the group concerned.

Passage of the law is far from certain, mainly because of resistance from the True Path party of Tansu Çiller, a former prime minister.

Mrs Çiller's support was essential for the formation of the present caretaker government but her party maintains that it would be wrong to rush legislation before elections which are due on April 18.

Bankers complain that the present regulatory system is too vulnerable to political interference.

Ministers have been accused of giving banking licences too liberally to people outside the profession and of hindering remedial action for institutions where Treasury auditors have uncovered problems.

"It is extremely important that an independent body should do the granting and cancelling of banking licences and also take action on the results of supervision," said Tanju Oguz, executive vice-president of Ottoman Bank, a mid-size Turkish bank.

Martin Hardy, the IMF's Turkey desk chief, currently in the country to monitor its progress on economic reform, said that, if properly implemented, the new banking law would be "a big step forward".

Interbank was previously controlled by Nergis Holding, a textile media and construction conglomerate owned by Cavit Caglar, a member of parliament. The bank said that Nergis was able to use legal loopholes to channel more funds from Interbank to its textile interest than the 50 per cent of a bank's capital base allowed by Turkish law for intra-group lending.

The previous Interbank board – whose members were last month barred from the right to occupy senior banking posts – was able to exceed these limits by lending money to companies which were not defined as group-related because they were less than 25 per cent owned by Nergis.

Olympic views bumpy flight path to survival

Industrial action by pilots has undermined EU-backed restructuring programme for Greek carrier, writes **Kerin Hope**

Aristotle Onassis, the late Greek shipping tycoon, still haunts Olympic Airways, the carrier he founded to put Greece on the international tourist map.

Two decades after Onassis sold the airline to the state, its pilots and cabin crews retain the high salaries and lavish benefits he handed out to maintain loyalty in the early days.

The effect on Olympic's balance sheet has been devastating. Fifty per cent of revenues go to cover the wage bill for 6,300 workers. Pilots are accustomed to receiving yearly wage increases of between 30 and 80 per cent.

Among concessions won by Onassis from the government as a prominent Greek shipowner willing to invest at home was a deal to allow Olympic pilots' salaries to be taxed at less than 20 per cent, against 45 per cent for Greeks with similar incomes.

A year ago Costas Simitis, the Socialist prime minister, made Olympic the centrepiece of a structural reform effort to help Greece join the euro-zone in 2001. But last month's decision by the pilots' union to ban overtime work and challenge a pay freeze agreed last year has derailed the EU-backed restructuring programme and placed Olympic's survival in doubt.

Yannos Papantoniou, economy minister, said Olympic would be shut down if it failed to achieve a turnaround this year. "Olympic is a test case for modernising the public sector. If it can't become profitable, it should go," he said.

The government wants to hire an international airline consultancy to take over management and prepare Olympic for privatisation. But Tassos Mantelis, the transport minister, has yet to ensure co-operation from Olympic's unions. "Weak management, strong unions and a culture that allows pilots to hold the airline hostage – these are the problems an international consultancy would face," a senior Olympic executive said.

Olympic's pilots and flight crews used to take a day off on their birthday, distribute free tickets to family members and have dental treatment in New York or London at the airline's expense.

Olympic's government-appointed managers face fierce pressure from the unions. Recent proposals to shut down loss-making long-haul flights to the US, South Africa and Australia, which provide flight crews with big cash allowances, were rejected. So was a suggestion that Olympic reduce the size of flight crews on long-haul routes.

"Managers have been an instrument in the hands of key unions at Olympic," said a recent report by Salomon Smith Barney and the Greek investment bank Eteva, the government's advisers on Olympic.

After negotiations with the pilots collapsed last month, Theodoros Tsakirides, the airline's chief executive, submitted his resignation. The government has been reluctant to accept it because of the difficulty of replacing him.

The pressure will intensify as Olympic struggles to overcome increasing cash flow problems. Passenger numbers fell by 15 per cent last year after a work-to-rule by pilots and cabin crews at the height of the tourist season.

Olympic is no longer eligible for budget subsidies after the EU approved a Dr14bn ($49m) capital injection last year and a $378m state guarantee to finance a fleet renewal programme. But the pilots are sticking to their demands. "We fly the oldest planes of any European carrier and face a punishing schedule of flights during the tourist season. Because the airline doesn't have enough pilots, about 30 per cent of flights in summer are covered by overtime," one pilot said.

Olympic staff protest at reforms which include a pay freeze EPA

The Socialists cannot afford to climb down over Olympic or delay the structural reform programme. Much has to be done before the European Commission makes its official decision next spring on Greece's application for euro-zone membership.

The government is divided overOlympic's fate. Mr Papantoniou and other members of the prime minister's modernising faction are prepared to shut down the airline, dismiss its workforce and offer its assets for sale to a private carrier which could become Greece's national carrier.

Cabinet ministers from the hard left are determined Olympic should survive. They say it should be subsidised because it has a public service role maintaining routes to remote islands year-round. But they are also influenced by Olympic's unions which are strong supporters of the Socialists.

The government has already received offers from several Greek shipowners who want to emulate Onassis and run the national carrier. But according to the government's adviser, "that solution isn't likely to help Olympic make a strategic alliance with a European airline, which is the only way it can survive in the longer term".

Nordic yards in submarine plan

By Tim Burt in Stockholm and Valeria Sköld in Oslo

Three of Scandinavia's largest naval shipbuilders yesterday unveiled plans to collaborate on a common submarine programme in the first step towards joint defence procurement in the Nordic region.

The companies – Celsius of Sweden, Kongsberg Defence & Aerospace of Norway and Denmark's Danyard Aalborg – are to join forces in a partnership dubbed the Viking Industrial Group to develop a new generation of submarine for their respective navies.

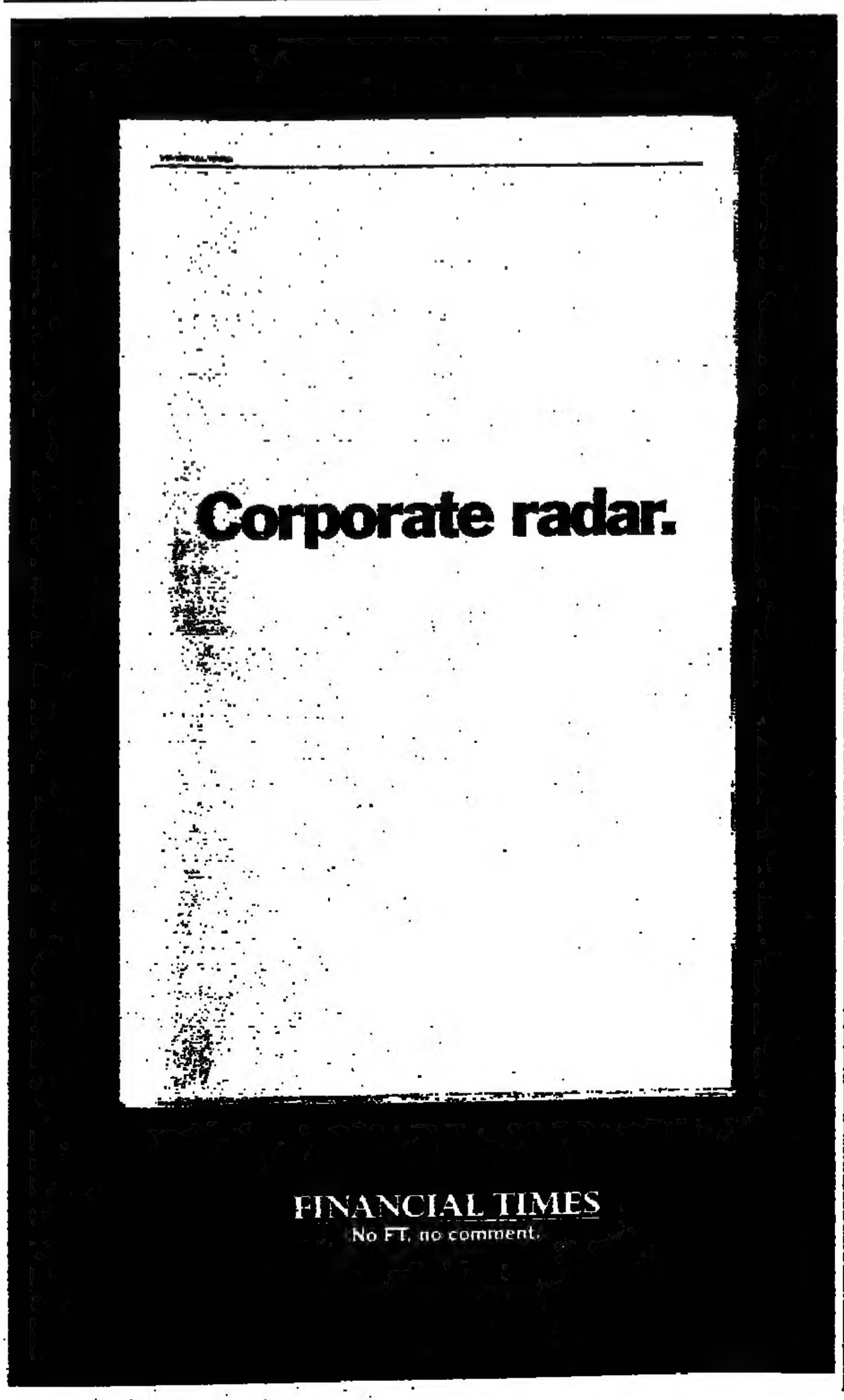
Defence ministers in all three countries have been seeking ways to contain military spending through common procurement. In addition to submarines, the three governments are also examining a pan-Nordic helicopter order, involving up to 80 aircraft over 10 years, and joint maintenance and training facilities.

The submarine programme involves an initial requirement for 10 new boats in an order worth an estimated SKr15bn-SKr20bn ($1.92bn-$2.56bn). Of that requirement, the Norwegian and Danish navies are each seeking four submarines, while Sweden is expected to acquire two new vessels.

"The formation of the Viking Industrial Group is a major step," said Kjell Göthe, vice-president of Celsius, Swedish partner in the consortium. "Co-ordinating procurement of next generation submarines will reduce the costs for each country."

The Finnish government is understood to be examining the project but has yet to decide whether to take part.

Celsius and Kongsberg, meanwhile, are competing against each other to win a NKr12bn ($1.6bn) order for up to six frigates for the Norwegian navy, the country's single largest defence contract. Tenders for the contract are due by March 1.



Reluctant senators back at trial

By Mark Suzman in Washington

After a blissful few days of being able to walk and talk freely on Capitol Hill, US senators will today once again be forced to sit in uncomfortable silence as they struggle to map out the final phase of President Bill Clinton's impeachment trial.

While Mr Clinton's lawyers and Republican prosecutors spent the past few days questioning the three witnesses who were approved last week, senators have visibly relished getting involved in other issues such as the president's budget proposals.

But with the last of the depositions – that of Sidney Blumenthal, a senior White House aide – completed yesterday, they are being reluctantly forced to refocus their attention on the charges that Mr Clinton committed perjury and obstructed justice in covering up the Monica Lewinsky scandal.

In theory, today's task is simply to decide the procedural questions of how to handle the depositions and whether more information and live witnesses are needed. In practice, the broader aim for both parties is to find as rapid a resolution as possible to proceedings that have already exhausted the patience of most participants and continue to outrage most of the rest of the country.

Although the contents of the depositions remain confidential, none of the witnesses called by the House managers appears to have shed new light on the charges. Ms Lewinsky, the most important witness, did little more than confirm her previous testimony. Vernon Jordan, a Washington lawyer who is a close friend of Mr Clinton, clarified a few inconsistencies concerning his attempts to find a new job for Ms Lewinsky, but also failed to provide any facts likely to change the course of the trial.

Prosecutors said yesterday that their attempt to establish that Mr Blumenthal was falsely told by Mr Clinton that Ms Lewinsky was a "stalker" and then passed that information on to the press, was very productive. But it is very unlikely that the combative presidential aide's testimony will have any significant bearing on the final outcome.

With 44 Democratic senators already on the record as wanting to dismiss the case, the president is almost certain to be acquitted.

Henry Hyde, the lead trial manager, has already said he still believes live testimony is warranted. But after viewing videotapes of the depositions, several Republican senators have indicated they do not think that is needed. More likely is that the Senate will agree – probably on a largely party-line vote – to allow both sides to use excerpts from the depositions when they make closing arguments. With senators working towards a self-imposed deadline of February 12, those would probably take place next week.

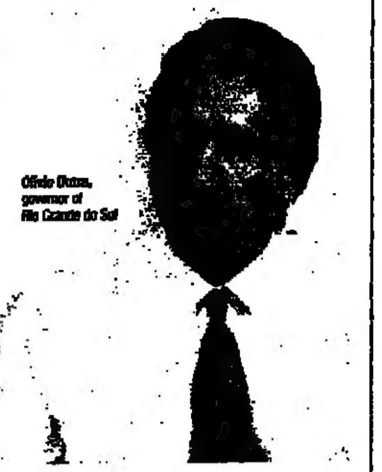
Trickier to resolve however, is a contentious debate over any alternative punishments short of removal from office, and whether they are merited or practical. Democrats have long proposed censuring the president, but in recent days Republicans have started to rally round an alternative plan to allow for a "finding of fact" by the Senate, requiring only a simple majority, that would establish Mr Clinton's guilt separate from the final vote on the impeachment articles and put their condemnation on the record.

But Robert Byrd, an influential Democratic senator who is an authority on Senate rules, yesterday dismissed the idea as unconstitutional.

Brazil: what a state they're in

		Payroll (% of revenues)	Debt owed to federal government (R$bn)
1	São Paulo	64	46.6
2	Rio de Janeiro	80	12.9
3	Minas Gerais	77	10.2
4	Rio Grande do Sul	84	7.8
5	Santa Catarina	68	1.4
6	Goiás	63	1.2
7	Bahia	53	0.9
8	Mato Grosso do Sul	74	0.8
9	Mato Grosso	55	0.8
10	Espírito Santo	66	0.4
11	Sergipe	62	0.3
12	Pará	51	0.3

Source: JP Morgan



Olivio Dutra, governor of Rio Grande do Sul

Rumblings of revolt heard in Brazil's deep south again

Rio Grande do Sul is rebelling against federal economic policy, reports **Geoff Dyer**. The precedents for Brasília are bad

The longest regional revolt in Brazilian history started over salted beef. For 10 years in the middle of the last century, Rio Grande do Sul, Brazil's southernmost state, declared itself independent in protest at the higher taxes its farmers faced on sales of meat than their neighbours in Argentina and Uruguay.

The "Piratini republic", as the dispute was known, was a defining moment for the country's fourth richest state. The state flag combines the green and yellow of Brazil with a red stripe, in memory of the blood that was shed during the revolt. "Brazilian by option" is an unofficial state motto.

With his bushy moustache and folksy turns of phrase, Olivio Dutra, the new governor of Rio Grande do Sul, is almost a caricature of a gaucho, the belligerent cowboys from huge estates on the southern frontier whose name and image now characterise the state. And Mr Dutra, sworn in on January 1, is leading a new regional revolt against federal economic policy. "We are being trampled," he claims.

Mr Dutra says his state is unable to honour a debt repayment deal that his predecessor signed with the federal government last year. He has won an injunction allowing him to put the interest payments in an escrow account while he tries to renegotiate the R$8bn (US$4.4bn) debt.

Rio Grande do Sul has stopped well short of declaring a moratorium, as Itamar Franco, governor of Minas Gerais, did on January 6. However, the federal government has gone on the offensive. After the finance ministry wrote a letter to international organisations warning them of the risk of default, the World Bank last week suspended $156.2m of loans to the state for 60 days.

Political dog-fights between big states and the federal government are nothing new in Brazil, the inevitable result of the country's ethnic diversity, regional strongholds and sheer size. Even under dictatorship, presidents have never had it all their own way.

The current dispute, however, goes to the heart of the economic dilemma facing Brazil. With inflation threatening to make a comeback, the central government is desperately trying to push through draconian budget cuts. However, seeing unemployment on the rise and a recession deepening, many of the 27 state governors, especially the seven opposition states, are pleading for some relief from Brasília.

Mr Dutra, from the left-wing Workers party (PT), says he has been left with no alternative. Paying the salaries and pensions of civil servants (who received a 60 per cent pay rise under the previous government) consumes 84 per cent of revenues. Under the debt repayment deal, he must pass a further 13 per cent of the state's revenues to Brasília, leaving the governor with virtually no breathing space.

"The finances are not viable," says Flavio Fligenspan, an economist at the Federal University of Rio Grande do Sul.

Mr Dutra, a former bank employee, says he needs time to resolve the state's financial problems. He plans to increase revenues by cutting down on tax fraud and exemptions. He points to his record as mayor of Porto Alegre, the state capital, which was near-bankrupt when he took over in 1989 but which is now financially solid. "I did the fiscal adjustment," he says.

However, it is not just economics that has driven Rio Grande do Sul into conflict with Brasília. Political considerations have forced Mr Dutra, who is supported by the Trotskyist wing of the PT, to reject the other alternatives which the technocrats at the finance ministry in Brasília are urging on him.

Reducing the public sector headcount is not easy – the previous government introduced a voluntary retirement programme but was forced to rehire some of the same workers. However, redundancies would be particularly difficult for a governor from the PT, which is strongly supported by public sector unions.

Moreover, Mr Dutra is ideologically opposed to privatising the state's remaining energy and water companies, with which he could pay off part of the debt or set up a pension fund for civil servants. Nonetheless, the business community is wary of breaking with his stance.

"The finance ministry has reacted in an emotional, not a rational, way," says Mauro Knijnik, president of the Rio Grande do Sul Commercial Association. "Renegotiation is not a problem. Brazil is renegotiating with the IMF."

According to Dagoberto Lima Godoy, head of the Industrial Federation: "The state is not in default. It is adopting a perfectly legal procedure while the two sides open discussions."

Such united support makes Mr Dutra a tricky opponent for the government. It cannot reopen talks over the states' debts because of the signal it would send about its budget-cutting plans. However, it is under pressure to find some other way to ease the burden on state governments.

History does not provide a comfortable precedent for Brasília. In 1845, the imperial government was able to overcome the Rio Grande revolt and secure national unity. But the price was picking up the state's debts.

NEWS DIGEST

US ECONOMY

Fed leaves short-term interest rates unchanged

The Federal Reserve's key policymaking committee left short-term interest rates unchanged at the end of a two-day meeting yesterday.

The decision by the federal open market committee to leave the Fed funds target rate at 4.75 per cent was widely expected but came amid growing concerns among policymakers about the continuing frenetic pace of US growth.

The central bank cut the Fed funds rate by 0.75 percentage points last autumn in three rapid-fire changes in response to international and domestic financial turmoil.

But since the last rate cut in November, the economy has actually accelerated – output growth in the fourth quarter of last year hit a two-year high of 5.6 per cent at an annualised rate. **Gerard Baker, Washington**

MEXICAN ENERGY

Private investment sought

President Ernesto Zedillo yesterday sent proposed constitutional reforms to Congress in an attempt to expand private investment in Mexico's energy sector, a century-old icon of state control, but he left the delicate task of privatisation to his successors.

In a nationally broadcast address, Mr Zedillo said he would send a bill to Congress paving the way for private investment in generation, transmission and distribution of electricity, which are currently controlled by two state monopolies.

Business leaders described it as one of the boldest proposals of his administration, but there were fears it would fall hostage to political opposition that has plagued other recent attempts at partial privatisation, such as petrochemicals. **Henry Tricks, Mexico City**

VENEZUELAN ELECTRICITY

Hint at privatisation

The government of Hugo Chávez, which took office on Tuesday, has held out the possibility of privatisation in Venezuela's troubled electricity sector. Alí Rodríguez, energy minister, said: "There will be private investment in transmission and distribution and we will study projects of new generation in various parts of the country."

Mr Rodríguez said the government could privatise two regional power companies this year, Semda and Enelven, even before the legislative framework it was drafting was approved by Congress. Investors would come if the returns were right, he insisted.

Bill Richardson, US secretary of energy, who held talks with Mr Rodríguez over the new government's energy policy, said the US was "very interested in investing in Venezuela's gas and electricity sector". **Ray Colitt, Caracas**

On the web today
- Ruling on anti-abortion website raises free speech
- Republicans say regulations will undermine privacy
- Argentine dollarisation 'would boost debt rating'

http://www.ft.com/americas

China boost for foreign shareholders

By Peter Montagnon, Asia Editor, in London

China will require managers of its overseas-listed companies to become more responsive to the needs of investors under a series of measures announced by its top financial regulator yesterday.

The announcement by Zhou Zhengqing, chairman of the China Securities Regulatory Commission, marks a recognition that many investors in the 53 companies listed in Hong Kong and other overseas markets in the past five years have been disappointed with the performance of their holding.

"Improvements are needed in many aspects," Mr Zhou told a London conference. Some overseas-listed companies have an "unsound" management structure, inadequate standards of disclosure and poor communication with shareholders.

China would follow up the recent passage of its new security law with a series of measures to address these problems.

Under the new rules listed companies would have to keep their management and operation separate from that of their – usually government – majority owner.

The two sides would have to keep separate accounts under the new rules and government shareholders should intervene only through appropriate channels such as shareholders' meetings.

"Government departments should not intervene in the normal operations and management of the listed companies, and shareholding institutions and their representatives are not allowed to interfere with the normal operations and management of these companies by bypassing the shareholders' meetings or the board of directors," he said.

Regulations covering "related party" transactions between the listed companies and their government shareholders would be tightened and transparency increased, while a more important role was foreseen for outside shareholders.

Bankers said the moves reflected a realisation that many Chinese flotations, particularly those in the febrile stock market of Hong Kong, had failed to live up to expectations.

"International investors will continue to entrust capital to Chinese enterprises only if they are confident that management are attempting to build shareholder value," said Peter Mallinson, head of Asian equities at Goldman Sachs.

The initial reaction from fund managers attending the conference was muted. "We are minority shareholders," said one.

"They say one thing and do another."

CONSTITUTIONAL CHANGE BELATED RECOGNITION MAY MAKE IT EASIER FOR PRIVATE COMPANIES TO RAISE MONEY

Beijing fillip for dynamic private sector

By James Kynge in Beijing

China's announcement this week that it will alter its *Communist constitution* to elevate the official standing of private and non-state businesses was hardly a bold foray into the capitalist unknown.

Even allowing for confusing and inconsistent statistics, it has been clear for at least two years that China's ailing, socialist state sector has relinquished its position as the mainstay of the national economy.

Nevertheless, the planned amendments are important because they signal a realisation that as growth slows and unemployment balloons, China can no longer afford to marginalise the most dynamic area of its economy. It is far from clear, however, to what extent a constitutional acknowledgement of the private sector's importance can be translated into better treatment for private enterprises, officials and analysts said.

The constitution is to be altered at a session of the National People's Congress in March to note that "the individual, private and other non-state sectors are an important component of the socialist market economy". The present constitution says "the private sector complements the socialist public ownership system".

"This could set the stage for the next round of economic growth. But all this will depend not on how the words are written, but on how these changes are carried out," said Dong Tao, senior economist at CSFB in Hong Kong.

Private entrepreneurs have long complained China's "big four" state banks, which together control as much as 90 per cent of total banking assets, seldom lend to them. This has caused some obvious distortions. Companies such as Huawei, a high-tech telecoms equipment manufacturer which has seen sales double almost every year for the last four, still has trouble in securing loans from state banks. The big four banks extend loans to China Telecom, the dominant state telecoms company, to facilitate the purchase of Huawei's equipment but are reluctant to lend directly to the profitable equipment maker.

Stone Rich Sight, a leading internet portal company and the maker of China's top Chinese-language software, has never received a loan from a state bank, said Wang Zhidong, the company's chief executive officer. "They cannot assess prospects based on intellectual property," said Mr Wang.

In contrast, loan growth to the predominantly loss-making state sector was around 16 per cent last year, analysts said. Officials at the People's Bank of China, the central bank, said that Beijing hoped to address one of the more inefficient allocations of capital in the world.

But it will not be easy. The consequences of withdrawing the syringe of state lending to ailing state companies would simply be to hasten their demise, and throw millions more unemployed on to the streets. China, rocked in recent weeks by several bomb explosions in public and instances of rural unrest, is increasingly concerned with maintaining social stability.

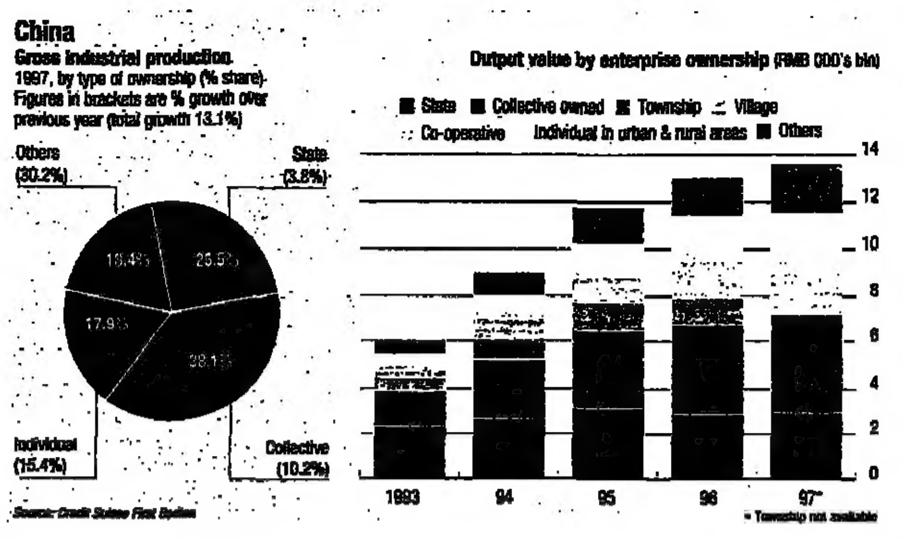
Nevertheless, some steps are being taken to help private enterprise. Twenty private companies were given permission last month to conduct foreign trade directly, rather than having to pay state-run trading companies to handle their imports and exports. This permission is to be expanded to more private companies this year, officials said.

The government is also preparing to support the development of private high-tech companies, officials said. A joint-venture venture-capital company is expected to receive official approval soon. High-tech companies – mostly private – are to be given priority in listing on China's stock markets, and the country's 242 main state research laboratories are to be allowed to commercialise research by spinning off private companies, officials said.

Another concrete effect of the constitutional amendment may be to help clarify the murky ownership structure of "collective" companies. Many such companies are in fact private but call themselves "collective" because the word has a socialist-sounding ring to it, and because it implies the equity participation of some local authority.

But with the banishment of official prejudice against private endeavour, collective enterprises may feel at liberty to doff their "red hats" and reveal their true nature. As the ownership of collectives becomes less opaque, banks may feel more confident in lending to them. Mergers and acquisitions would also become easier because the actual owners of collective companies may become identifiable, analysts said.

"There could be many opportunities for asset restructuring in the collective sector," said Wang Shiyu, managing director of China M&A management.



Indian privatisation edges ahead with gas shares sale

By Krishna Guha in Bombay

India's privatisation programme inched forward yesterday when the government approved the sale of 30m shares in Gas Authority of India (Gail) in the domestic market for Rs1.8bn ($42.3m) – *less than it had* hoped.

The sale, in the face of weak demand, is the first fruit of a flurry of recent initiatives on privatisation, which the government hopes will enable it to exceed its target of Rs50bn revenue by March 31.

These include controversial plans to invite state-owned companies in the energy sector to buy government-owned shares in other energy companies, creating a network of cross-shareholdings.

The Gail deal brings the total raised from privatisation in the financial year to date to about Rs4bn. The government had hoped to raise much more by selling *up to 42m shares*, but opted for a smaller allocation to preserve a floor price of Rs60 a share.

State-owned financial institutions bought most of the Gail shares, while foreign institutions picked up about 4m shares. The prominence of public sector investors raised questions about the transfer of ownership.

Last month, P. Chidambaram, India's former finance minister, claimed the government was trying to push public sector banks into subscribing for privatisation shares, a charge the government denies.

Investment bankers involved in the Gail deal insisted there was no government intervention.

There was absolutely no pressure from the government on any investor to put in money, said one senior banker.

However, he said foreign investor appetite was limited by uncertainty over government plans to sell a further chunk of its stake in Gail to sister companies Indian Oil and ONGC, an oil and gas exploration company, as part of the new cross-shareholding initiative.

Malaysia loans miss 8% target

Malaysia's banking industry registered loan growth of just 0.5 per cent in 1998, Mustapa Mohammed, Malaysia's second finance minister, said yesterday. This is far below the 8 per cent target that bankers say was pressed on them by central bank authorities, Sheila McNulty writes from Kuala Lumpur.

Many bankers are believed to have refused to give in to the demands, saying these could put their institutions at further risk by taking on the burden of reviving the economy. Malaysia's recession has hit the banking sector hard. Mr Mustapa said the government would once again aim for 8 per cent loan growth this year.

Obuchi, premier who baffles his supporters and opponents alike

Six months into the job, some are starting to wonder if he is more of a leader than meets the eye, writes Michiyo Nakamoto

Obuchi (right): Decisions seem made 'as if out of thin air' AP

For someone who self-deprecatingly characterises himself as a "dull ox", Keizo Obuchi can hardly be accused of indolence.

Last month alone, the Japanese prime minister opened the new year with a trip to Europe where he enthusiastically trumpeted the internationalisation of the yen, finalised a deal to create a coalition government, reshuffled his cabinet and pledged to return Japan to growth.

The coalition he forged with the former opposition Liberal party has helped to increase the ruling party's chances of passing important legislation and dealt the opposition a devastating blow. In the process, Mr Obuchi's approval rating has shot up from the low 'teens to above 30 per cent, despite continuing economic gloom.

As a result, the prime minister has felt confident enough to let it be known that he expects to run for a second term as president of the Liberal Democratic party (LDP) in September.

Given that at the time of his victory in the race for the premiership Mr Obuchi was largely written off as an ineffective leader who would be lucky to last the full term, his achievements have surprised, if not baffled, critics and supporters alike.

It is just six months into his premiership, but some are beginning to wonder if Mr Obuchi is not, in fact, more of a leader than meets the eye.

"As soon as the coalition agreement was reached, the view of Obuchi changed dramatically," said Takao Iwami, a leading political analyst. People began to think that, "although he appeared unable to do anything, in fact he could".

But Mr Obuchi did not suddenly become an effective leader. Judging from his recent public blunders, he can still seem as much of a "vacuum", as former Prime Minister Yasuhiro Nakasone is reported to have called him, as he was six months ago.

In a recent incident in the Diet, Mr Obuchi failed to answer a question put by Kazuo Shii, leader of the Japan Communist party, allowing other LDP politicians to speak in his place, even after repeated calls that the question was being put to the prime minister.

When he did respond to a question on Japan's new security arrangements with the US, Mr Obuchi's explanation differed sufficiently from those of his ministers for him to be forced to apologise for the misunderstanding. Politicians and analysts still testify to his lack of clear policies on any issue.

"Neither the prime minister nor the chief cabinet secretary [Hiromu Nonaka] understand economic or financial issues," a leading LDP politician close to him claims. The situation has meant that decisions are made "as if out of thin air", says Minoru Morita, a political analyst.

As soon as he had announced his decision to form a coalition, people's view of Obuchi changed dramatically

But, ironically, it may be Mr Obuchi's lack of clear policies based on strong convictions that is the source of his resilience.

Unlike his predecessor Ryutaro Hashimoto, who staked his reputation on far-reaching reforms to Japan's systems, including the fiscal reform which ultimately undermined his political career, Mr Obuchi has shown himself more concerned with political manoeuvring.

To win the support of the opposition New Komeito party in the upper house of the Diet, where the LDP lacks a majority, Mr Obuchi accepted its demand last year to distribute shopping vouchers, to try to stimulate the economy.

Similarly, in his deal with the Liberal party, Mr Obuchi agreed to increase tax cuts from an initially planned Y7,000bn ($60.2bn) to Y9,300bn and to channel revenues from the consumption tax to welfare.

So far, the measures Mr Obuchi has adopted for political purposes, if nothing close to a solution to Japan's woes, are at least in line with his pledge to revitalise the Japanese economy, and have enabled him to strengthen his position.

But the economy still faces nasty shocks in the months ahead, not least an impending sharp decline in the stock market as companies unwind their cross-shareholdings ahead of the end of the financial year. Mr Obuchi will have to look beyond political convenience for appropriate solutions.

The Obuchi faction is strongly concerned about its own survival and is good at doing what is best for that, one western diplomat says. But, she adds, whether or not the policies he chooses for political reasons are the ones Japan needs, is another question.

WORLD TRADE

Export credit agencies see business soar

By Nancy Dunne in Washington

Lending by export credit agencies soared by 400 per cent between 1988 and 1996 as governments around the world provided loans, guarantees and insurance to help their companies compete for business abroad, according to the draft of a new report compiled by several non-governmental organisations.

While lending from multilateral finance institutions, such as the World Bank, has remained relatively stable, export credit agencies (ECAs) increased their new commitments from about $26bn in 1988 to $105bn eight years later, according to the report. At the same time the ECAs' share of developing country debt has been mounting. In 1996 they held almost one-fourth of the debt and 56 per cent of developing country official debt.

The report will be released next month in Washington at a meeting of 45 NGO representatives from around the world. Having succeeded in getting environmental standards adopted at most development banks, environmentalists and human rights groups are now turning their attention to the ECAs, which they say are funding projects the development banks have rejected.

The NGOs contend that many environmentally hazardous projects in mining, forestry and energy would not go forward without the backing provided by export credit agencies. Many, they say, are funding precarious projects which add to the oversupply of the world's commodities. Bruce Rich of the Environment Defence Fund said ECAs were backing many "bottom of the barrel" projects, which ought to be rejected.

The report takes aim at several ECA projects, such as the proposed Aginskoe gold mine in the Russian far east, which could endanger the brown bear, mountain goats and other wildlife.

Russia, hungry for hard currency, has been a target for exploitation and environmental degradation by foreign natural resource companies backed by their ECAs. The US Overseas Private Investment Corporation provided cover for two logging joint ventures, which involved the elimination of irreplaceable forests, according to the report.

In 1992, the US Export-Import Bank was required by Congress to adopt strong environmental standards and has since tried to convince its fellow ECAs to follow suit. However, it has come under pressure from senators and congressman on Capitol Hill to ease its standards so that US companies are not left out in bidding for contracts.

However, Eximbank officials say they have just begun to make progress in their drive for harmonised ECA environmental standards. They attribute the progress to the change of governments in Germany and the appointment of the Joschka Fischer of the Green party as foreign minister.

Eximbank was asked by European agencies to join an export credit group to back funding for the $1.52bn Ilisu Dam, a controversial hydro-electric project currently planned in Turkey on the Tigris River. For the first time, the finance agencies are negotiating over common conditions to be set for their backing.

The dam raises many concerns. It would require the resettlement of at least 15,000 Kurds, who strongly oppose the project, and the flooding of Hasankeyf, an ancient archaeological site cherished by the Kurds. It would give Turkey the ability to block the flow of water to Iraq for several months during the year. Eximbank officials say its board has approved conditions to be attached to US participation.

Heathrow airport is Europe's busiest

By Michael Skapinker, Aerospace Correspondent

London's Heathrow airport remained Europe's busiest last year, but its largest rivals grew more quickly, according to Airports Council International.

Heathrow handled 60.6m passengers in 1998, an increase of 4.4 per cent. However, the airport is severely congested and airlines such as British Airways have had to transfer services to London's Gatwick.

A public inquiry into an application by BAA, Heathrow's owner, to build a fifth terminal at the airport is drawing to a close after almost four years. A decision on the terminal is not expected for another two years. BAA has said it will continue to lose traffic to continental rivals if the terminal is not built.

Frankfurt, the second busiest European airport, saw passenger numbers rise 6.2 per cent to 42.1m. Paris's Charles de Gaulle airport was in third place, with 38.6m passengers, an increase of 9.5 per cent. Schiphol in Amsterdam had 34.4m passengers, a rise of 9 per cent. Gatwick was in fifth place with 29.1m passengers, up 8.2 per cent on 1997.

They were followed by Rome, with 25.3m passengers, Madrid with 25.2m and Paris Orly with 24.9m.

The council, which represents airports worldwide, said the 33 biggest European airports saw passenger numbers grow 6.4 per cent to 555m.

Take-offs and landings rose by 5.4 per cent, indicating a slight increase in the number of passengers in each aircraft. Freight volumes grew 1 per cent.

Frankfurt remained the biggest handler of freight, although Heathrow was close behind. Frankfurt handled 1.8m tonnes of freight, a fall of 2.9 per cent on 1997, compared with 1.2m tonnes at Heathrow.

Plastics set to dominate packaging

By Peter Marsh in London

Plastic will become the world's most popular packaging material in the next two years when it will overtake cardboard and paper, according to a study* of the world's $900bn a year packaging industry.

Market Tracking International (MTI), a consultancy, predicts that the eclipse of the more traditional material will be driven partly by supermarkets' desire for more flexible packaging that takes up less space on their shelves.

Environmental pressures will also drive the industry, with the biggest players struggling to find ways to reduce the wastage of materials and the creation of mountains of rubbish by new strategies in recycling.

The world packaging market by region
($bn)

	1997	2001	% growth
Western Europe	111.8	119.1	6.4
North America	105	110.4	5.1
Japan	60.2	61.5	2.1
Asia-Pacific	52.7	71.1	34.9
Latin America	25.5	31.2	22.3
Eastern Europe	10.3	14.1	36.8
Rest of world	20.1	26.5	31.8
Total	385.8	434	12.5

Source: MTI

Packaging products are used for a broad range of consumer and business products. The sector is also highly dependent on overall economic growth. The recent financial turmoil in regions such as south-east Asia and Russia is likely to damp demand for packaging over the next two to three years.

According to MTI's estimates, world sales of primary packaging materials – such as raw board, plastics and metal cans – will reach $434bn in 2001, from $385bn in 1997.

World sales of finished packaging materials – including the value of extra operations applied to the raw packaging such as printing – are estimated at roughly twice the figure for the packaging materials themselves. That makes the whole industry worth some $800bn a year in 1997.

MTI believes that in value paper and board accounted for 36 per cent of sales of primary packaging materials in 1997. Equivalent figures for plastic, metal and glass were 34 per cent, 20 per cent and 10 per cent.

By 2001, these figures will change, with plastics gaining the upper hand with 38 per cent of the market, particularly as plastics bottles become more favoured by consumers for drinks such as beverages and beer.

In 2001 paper and board will go down to 36 per cent of the market; metal will account for 19 per cent; and glass 7 per cent, according to the consultancy's estimates.

Demand for packaging in eastern Europe and the Asia-Pacific region (excluding Japan) will rise by more than 30 per cent between 1997 and 2001, says the consultancy.

With much slower growth likely in developed countries, the share of the world's packaging consumption in these regions will drop from 71 per cent in 1997 to 66 per cent in 2001, says the report. Leading packaging suppliers include Crown Cork & Seal and Owens Illinois of the US, the German-Swiss VIAG/Alusuisse, Tetra Laval of Sweden and Jefferson Smurfit of Ireland.

**World Packaging Companies 1999; £795/$1,350; MTI, 7 Archway Business Centre, Wedmore Street, London N19 4RU, UK. website: www.marketfile.co.uk*

US WARNING 'MEET MAY DEADLINE OR FACE ANOTHER DISPUTE'

Start beef hormone talks, Brussels told

By James Blitz in Rome

Charlene Barshefsky, US trade representative, yesterday urged the European Commission to begin negotiations immediately with Washington on their dispute over hormones in beef, or risk sanctions similar to those threatened over bananas.

In one of the strongest signs yet that the US is prepared to get tough in its attempt to have the European Union's 10-year-old ban on hormone-treated beef lifted, Ms Barshefsky called on the Commission to begin talks ahead of a May deadline by the World Trade Organisation (WTO) for the ban to be lifted.

"We want to work with Europe to reach an agreeable solution," Ms Barshefsky told Confindustria, the Italian employers' federation, in Rome. "But if something doesn't change ahead of the May 13 deadline, we will have a similar situation with beef hormones that we have with bananas."

Her comments, on a brisk visit to Germany and Italy, coincided with a renewed warning that the US was prepared to impose sanctions on imports of European clothes and foodstuffs, pending the outcome of arbitration in the bananas dispute next month.

"I don't want to do that, but I will, because there is no other means of asserting our rights in the face of the European Commission," Ms Barshefsky said. She noted that the arbitration process recently agreed with the WTO would simply establish the level of damages sustained by the US side.

The US claims the beef ban costs its cattle farmers $250m a year in lost exports. In the banana dispute, the US is seeking to impose $500m in sanctions on European exporters.

Ms Barshefsky's visit to Rome was aimed at explaining the US position on the bananas dispute to Italian industrialists, who could be badly hit if sanctions against European consumer goods go ahead.

She refuted suggestions that the US was acting "unilaterally" in its threat to impose sanctions, insisting it had already taken some 41 cases to the WTO under its disputes settlement scheme.

The US was the "largest user" of the scheme, she added, only to find that the Commission refused to abide by the WTO's decisions, complaining it would not negotiate "with a gun to its head".

Her visit also seems aimed at trying to put distance between the tough position taken by the European Commission and the fears of national governments that exports could be hit.

"My general sense is that a number of the officials I have met wish to see a negotiated solution to the dispute and intend to convey that view to Commission officials," she said.

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Malaysia keeps up export levels

By Sheila McNulty in Kuala Lumpur

Malaysian manufacturers sustained their high level of exports last year despite the economic problems in both the domestic market and the region.

Rafidah Aziz, minister of trade and industry, yesterday reported a cumulative trade surplus of M$51.45bn (US$13.5bn) for the first 11 months of 1998, a sharp turnaround from the previous year's deficit of M$45.1m.

The export-led change in the trade balance was also helped by a sharp contraction in imports due to the east-Asian financial crisis. Gross merchandise exports were M$261.02bn, against imports of M$209.57bn.

In 1997, merchandise exports were M$220.89bn against imports of M$220.94bn.

Exports of manufactured goods, which accounted for about 81 per cent of total merchandise exports, rose to M$210.73bn for the first 11 months of 1998, from M$174.73bn for all of 1997.

Electrical and electronic products amounted to 56.4 per cent of total merchandise exports, or M$147.29bn. Other main manufactured exports were textiles, clothing and footwear, chemicals, transport equipment and wood products.

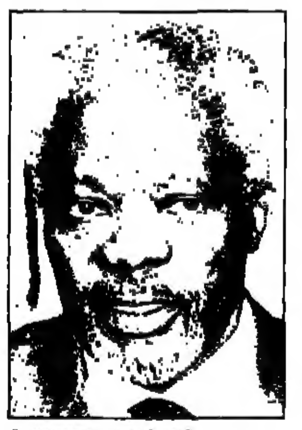
Malaysia, like its neighbours, has looked to exports to help the economy through the crisis. Foreign direct investors have mostly stayed in Malaysia throughout the recession and interest in the manufacturing sector – which provided the main impetus to the growth of the economy – continued. Ms Rafidah said 729 applications were received in 1998 to establish new manufacturing projects, with proposed capital investments amounting to M$18.98bn.

A total of 33.3 per cent of those were from domestic sources while 66.7 per cent were foreign. The crisis did take its toll, however, Ms Rafidah said, noting that there were fewer applications in 1998 compared with 1997 – a 14.1 per cent fall in the number of applications and a 44.5 per cent drop in terms of capital investments.

INTERNATIONAL

BOWING TO BAGHDAD EVICTION DEMANDED A MONTH AGO AFTER AIR STRIKES

UN pulls British and US staff from Iraq



Annan: approved action

By Michael Littlejohns at the United Nations

The United Nations yesterday decided to withdraw the remaining Americans on its staff in Iraq, bowing to an eviction order issued a month ago in which Baghdad declared that it could not guarantee the safety of US and UK citizens following air strikes conducted by the two countries.

Although the UN initially rejected this demand on the grounds that their could be no legal discrimination against particular nationals among its personnel, Fred Eckhard, the official spokesman, said no written response was received and subsequently both in Baghdad and New York there are "numerous verbal requests for US and UK citizens to leave".

When it became clear that the decision was not going to be reversed, Benon Sevan, head of UN humanitarian operations, recommended "as a matter of principle" that no Americans or Britons should remain, even though Iraq was willing to make an exception for three US employees, who were not identified.

Kofi Annan, the secretary-general, approved yesterday's action which some officials saw as yet another political victory for Iraq in its unresolved conflict with the UN.

This had already resulted in the suspension of the weapons inspection programme since early December and continuing speculation whether it would ever resume.

While Mr Sevan tried to work out an agreement with the Iraqis, he instructed American and British staff, most of them humanitarian aid workers, not to return to their posts from routine leave.

As a result, no Britons remain in the country and only two Americans were left, Mr Eckhard said. These were the deputy head of a humanitarian agency and the secretary to Prakash Shah, the secretary general's special representative and former UN ambassador from India. Before the order was issued, there were at least 14 US and UK staff in the country, officials said.

The withdrawal decision coincided with a UN appeal for $21m to help more than 1m Iraqis suffering from food shortages and poor water, including an estimated 200,000 acutely malnourished children.

"These children have not had proper drinking water or sanitation since they were born," said Jean-Jacques Graisse, a senior official of the World Food programme, which complements the UN oil for food operation in the country.

US scheme to overthrow Saddam runs into the sands

Roula Khalaf on how a fragmented opposition and rising scepticism have hurt Washington's plans

Martin Indyk, US assistant secretary of state, yesterday wrapped up a tour of the Gulf amid rising scepticism over US plans to work for a change of government in Baghdad.

US officials now emphasise in public statements the new US strategy of working with the Iraqi opposition to plan for an Iraq free of Saddam Hussein – a policy that is becoming known as "containment-plus".

The US administration last month designated seven Iraqi opposition groups as eligible to receive some of the $97m in military assistance authorised under last year's Iraq Liberation Act. It also appointed Frank Ricciardone, Iraqi expert and deputy chief of mission in Ankara, as co-ordinator for transition in Iraq, with a mandate to bring together various opposition groups.

However, resistance to this policy is coming from some Arab states, some of the opposition itself and perhaps most important, some corners in Washington. As Mr Indyk was told in several Gulf states – he visited Bahrain, Kuwait, Oman, Qatar and the United Arab Emirates – that, while most Arab governments would like to see the end of Mr Saddam's rule, they are loath to back foreign intervention in an Arab country. Many are worried a change in regime brought about by anything other than a palace coup could break the country up or lead to civil strife.

Moreover, even before the US tells the opposition what the plan for transition might be, the problems of bringing even seven of the more than 70 disparate groups together are coming to the surface. Two designated groups which are key to any change in Iraq have publicly stated they wanted nothing to do with US assistance.

The first – the Iran-based Supreme Council for Islamic Revolution in Iraq – is deemed by the US to be the most important Shia group in the southern part of the country. Opposition members say SCIRI may secretly join in discussions with Mr Ricciardone, but cannot be seen to be active in any US sponsored design.

The second and more important group is the Kurdistan Democratic party (KDP), which controls most of northern Iraq. The KDP asked for Mr Saddam's help in 1996 to fight its rival, the Patriotic Union of Kurdistan (PUK). Since then, it has had close political and commercial ties with Baghdad. Opposition members say the KDP is unlikely to sacrifice these relations for the sake of an uncertain US plan.

But even the PUK is said to be worried about publicising its backing for US efforts. Like the KDP, it fears that appearing to take part in any US plan against Mr Saddam could lead him to retaliate by moving his troops to the north. The Kurds in northern Iraq, like the Shias in the south, have vivid memories of their 1991 uprisings, which were brutally put down by Baghdad without prompting any foreign intervention.

Martin Indyk (right), with Madeleine Albright, the US secretary of state AP

'We could end up with 15, 20, 90 groups competing for power'

There is good reason for the opposition to be cautious. While Congress may see the Iraq Liberation Act as the beginning of a new policy, some US officials are openly saying that working with the opposition for a change of government in Iraq is doomed to failure.

Anthony Zinni, commander in chief of US central command, responsible for operations in southern Iraq, warned a Senate hearing only last week that the opposition – he counted 91 groups – was very fragmented. "They have very little, if any, viability to exact a change of regime in and of themselves. Their ability to co-operate is questionable. Even if we had Saddam gone, we could end up with 15, 20, 90 groups competing for power," he said.

Furthermore, western diplomats say the US has no intention of disbursing any aid to the opposition in the near future, even though this has been authorised by Congress. "The US will work intensively with the opposition but we are far from seeing any group which can potentially use military equipment for a good purpose," says a diplomat.

The mixed signals coming out of the US are a great disappointment to groups such as the Iraqi National Congress, which lobbied hard to see the Iraq Liberation Act passed. Ahmad Chalabi, head of the INC, wants the act to be used to implement his plan to train two brigades of up to 8,000 soldiers and move them to a southern enclave in Iraq, which the US would declare a no-drive zone. Then, at an appropriate time, says Mr Chalabi, the forces in the south and the Kurds in the north would move on Baghdad.

On Tuesday, the INC lashed out at Gen Zinni, saying his public statement and private comments from other US officials indicate the US government continued to focus on covert attempts to organise a military coup against Saddam, rather than working with the opposition for democratic change.

NEWS DIGEST

SAUDI ENVOY TRIES TO CLINCH DEAL

Libya holding talks over Lockerbie suspects

Negotiations over two Libyans suspected of carrying out the Lockerbie bombing have been taking place in Tripoli, British diplomats said yesterday. Saudi envoy Prince Bandar bin-Sultan has travelled to the Libyan capital to try to clinch a deal for the handover of the two men accused of blowing up Pan Am flight 103 over the Scottish town 10 years ago, killing 270 people.

"We didn't ask Bandar to go but we are aware he is there," a British official said. "Anything that convinces the Libyans that the US-British initiative is the only way ahead, so much the better. But he is not lobbying on our behalf as such."

Senior British sources have been quoted as saying that Muammer Gadaffi, the Libyan leader, is now convinced United Nations sanctions on his country would, in effect, be removed once the two suspects – Abdel Basset Ali Mohammed al-Megrahi and Lamen Khalifa Fhimah – are surrendered. US officials have made it clear the talks are the last chance before the sanctions screw is tightened further. **Reuters, London**

ISRAELI FINANCES

Government debt soars

Israel's government debt soared last year to 111 per cent of gross domestic product, mainly because of depreciation of the shekel against the dollar, the Bank of Israel said yesterday. It warned the debt could increase again this year if the government failed to trim the 1999 budget deficit to 2 per cent of GDP.

Total debt increased 5 per cent in real terms, rising from Shk361bn ($88bn) in 1997 to Shk411bn ($100bn) last year when the shekel fell 17.6 per cent against the dollar following the economic crisis in Russia and south-east Asia.

Bank of Israel officials and analysts said whichever government was elected after May, it would be saddled with a debt that could be reduced only if it introduced structural reforms and continued with privatisation. Privatisation receipts and profits from the Bank of Israel have in the past been used to reduce the budget deficit instead of to pay off debt. **Judy Dempsey, Jerusalem**

ISRAELI JAIL TERMS

Sentences cut for killers

Israel yesterday commuted the sentences of several Jews serving long sentences for killing Arabs in a decision criticised by both opposition parliamentarians and Palestinians.

On the recommendation of Tsahi Hanegbi, justice minister, President Ezer Weizman commuted to 40 years a life sentence served by Ami Popper who killed seven Palestinians in 1990, while Yoram Sholnick, who in 1993 shot a Palestinian already detained and bound, had his 15-year sentence reduced by four years. Another sentence was reduced from 17 years to 5½ years.

Mr Weizman said the shorter sentences were part of the Middle East peace process and were justified since Israel had in the past freed Palestinians. But Yossi Sarid, head of Meretz, Israel's opposition party, said "what the government and the justice minister did here was set one principle for Jewish murderers and another for Arab murderers. This is unacceptable." **Judy Dempsey, Jerusalem**

EUROPEAN DEFENCE COLLABORATION COMPANIES ARE PRESSED TO OFFER ACCEPTABLE PROPOSALS FOR HORIZON PROJECT

Ship ultimatum sent to France and Italy

By Alexander Nicoll, Defence Correspondent

Britain will build a new frigate alone if a European consortium does not produce acceptable proposals on the £8bn ($13bn) Horizon project in the next few weeks, Sir Robert Walmsley, chief of defence procurement, indicated yesterday.

A decision to go alone would be a big setback to European defence collaboration. But Sir Robert, a government official, made clear the UK would still order the PAAMS principal anti-air missile system, developed by France, Britain and Italy in tandem with the Horizon programme.

Britain is ready to order the weapons system. "We think we have got a very real prospect of a good commercial arrangement with a competent contractor," Sir Robert said in an interview with the Financial Times. "We are not going to commit to that until we're quite confident that we can provide a ship to go underneath it."

The British, French and Italian defence ministries have asked the consortium to propose by the end of February a new management structure that clearly defines the responsibilities of each company in the construction of the Horizon.

The consortium includes the Marconi Marine division of General Electric Company of the UK; state-owned DCN of France; and Orizzonte, a joint venture between two state-controlled Italian companies, Fincantieri and Finmeccanica.

Britain urgently needs to order 12 ships to replace ageing Type 42 destroyers. France wants four frigates and Italy as many as six.

Sir Robert said: "We want to sharpen the prime-contracting management competence of the consortium." He described present industrial arrangements as "extremely complex". Each company in the group had a strong interest in competitions the consortium itself was running for the supply of equipment.

Joint ventures were a good way to get a programme started, "because everyone gets a share". Sir Robert said. "But when it comes to making difficult decisions and executing programmes, they are a recipe for decisions taking a long time."

He warned that the Royal Navy "is not going to wait for ever; I'm not going to be in charge of a shipbuilding programme which goes through a series of further indefinite delays".

Sir Robert said the UK Ministry of Defence would evaluate the companies' proposals and then decide how to proceed. "If I didn't think that an international programme was the best route then of course we would have to consider the alternatives," he added.

But the UK still wanted to persevere with the collaborative route. "We have signed up to the memorandum of understanding [with France and Italy] and we are prosecuting it as hard as we can."

Nationalists plan bright future for their new-born Scotland

Edinburgh prepares to open the country's assembly while the SNP prepares for statehood. **Deborah Hargreaves** reports

Brass plaques are being screwed on doors in Edinburgh as diplomats from around the world gather to watch the Scots rejoin the world stage. The city was host to 17 consulates two years ago; now there are 39.

This audience – which includes more than 50 political correspondents from around the world who have been attracted to the capital – is gathering to witness the birth of a new Scotland. It is to have its first parliament since 1707, for which elections will be held on May 6.

The inauguration of the assembly on July 1, by Queen Elizabeth, could also be the first step towards an independent Scotland – if the Scottish National party has its way. The SNP, neck and neck with the governing Labour party in Scottish opinion polls, has pledged to hold a referendum on independence during the first four-year term of the parliament. Labour, and all the other parties, want Scotland to stay in the UK.

The parliament will have responsibility for health and education with a budget of £15bn ($24.6bn). The SNP wants to make strides towards independence by wresting more powers for the parliament and setting up a foreign policy department for Scotland separate from the UK government's Foreign Office.

"Devolution [regional government] is not a one-off event; it is a dynamic process," says George Reid, the party's external affairs spokesman. "The SNP will build a majority where we can, and although the speaker of the parliament can rule that certain areas [of legislation] are *ultra vires*, it is a political reality that if there is a majority in parliament, what it seeks will be granted."

Mr Reid wants to establish a Scottish ministry to liaise with the EU, UK and Commonwealth. He also seeks an office in Brussels and a network of bases overseas to boost Scottish trade, tourism and inward investment. The department would become a full-blown foreign ministry if Scotland won independence.

The Scottish economy

Gross annual output (£bn) 1993

Tourism	2.2
Agriculture	1.7
Chemicals	2.1
DP equipment*	4.4
Electronics**	3.3
Mechanical engineering	2.6
Oil and gas	4.0
Food	3.5
Whisky	2.3

* Includes office machinery
** and associated engineering
Source: Scottish Enterprise

The SNP says there has been an undercurrent in favour of Scottish independence for the past 300 years. Polls show 35 per cent of the electorate wants it, with the greatest support coming in the 18-35 age group. At the same time, 65 per cent of all age groups believe independence is inevitable.

"Independence is not an end in itself," Mr Reid says, "but a means towards building a more prosperous, socially-just society."

The SNP plans to issue two manifestos for the elections – one for its plans for the parliament, the other for its programme for independence. The first will promise a reduction in fees for students, for example, and the second will suggest abolishing them.

The SNP claims Scotland would rank as the 7th richest nation in the world according to OECD figures based on GDP per capita – which is around $22,700. The UK ranks 18th. "We're not dealing with some hick successor state within the USSR, but potentially a strong and wealthy nation," Mr Reid says.

The SNP rejects Labour suggestions that Scotland would have a deficit of £7.1bn if it were alone, claiming that £2.8bn is a more accurate figure.

An independent Scotland would remain a member of the EU, there would be a referendum on joining the euro and the SNP would attempt to negotiate an exit from Nato because of its opposition to nuclear weapons. Queen Elizabeth would remain head of state, but without the pomp and ceremony she enjoys in England.

George Reid: 'If there is a majority in parliament, what it seeks will be granted'

Nationalists draw parallels with Norway, which was part of Sweden until 1905. They also see the Flanders region of Belgium, which has concluded its own cultural and trade agreements with other sovereign states, as a role model.

The SNP wants to concentrate on Scotland's strength in the IT sector to build a so-called knowledge culture. The party also says it will negotiate to keep that part of the offshore oil industry which is already classified as coming under the Scottish legal system – this could give it 70 to 80 per-cent of UK North Sea oil revenues.

The SNP wants to run business-friendly policies and reduce corporation tax in an independent Scotland. But a Mori poll in January questioned 100 large companies and found that 75 believed independence would make things worse for business. The Confederation of British Industry, the UK employers' body, has called for a meeting with the SNP to discuss policies and seek assurances that an independent Scotland would not raise barriers to trade with the rest of the UK.

PARAMILITARIES FIRST MINISTER INVITES AMNESTY INTERNATIONAL AND HUMAN RIGHTS WATCH TO 'OBSERVE AND REPORT'

Blair backs calls for probe into N Ireland beatings

By John Murray Brown in Dublin and David Wighton in London

Tony Blair, the prime minister, yesterday signalled his support for an independent human rights observer to monitor the recent surge in paramilitary "punishment beatings" in Northern Ireland.

Police say January was the worst month for such violence since the Irish Republican Army reinstated its ceasefire in July 1997.

David Trimble, Ulster Unionist leader and Northern Ireland first minister, wrote on Tuesday to Amnesty International and the New York-based Human Rights Watch inviting them to "observe and report on the beatings and shootings being carried out by paramilitaries since the signing of the Good Friday agreement".

Mr Blair, asked about the proposal in the House of Commons yesterday, said it was "certainly worth considering".

His aides said Amnesty International already operates in Northern Ireland. The prime minister's official spokesman said the government would welcome the move if it reduced the number of punishment beatings. "We have all got an interest in seeking to put pressure on those that are responsible," he said.

Mr Blair earlier dismissed opposition calls for a moratorium on prisoner releases until the beatings end. "Were we to bring the whole process to an end the result would not be less violence in Northern Ireland," he said.

The prime minister's office repeated the government view that the ceasefire was holding and pointed to the large numbers of punishment beatings during the last IRA ceasefire, under the previous Conservative government.

"It is not at a level which leads us to say that the ceasefire has broken down," the office said.

There have been five shootings and 12 beatings by republicans and seven shootings and 17 beatings by "loyalists".

"In the past they have demonstrated an absolute ability to bring it to an end when it suits their purposes," said Sir Ronnie Flanagan, chief constable of the Royal Ulster Constabulary (the Northern Ireland police chief). Police say there were no incidents at the time of President Bill Clinton's visit last year.

In Belfast yesterday, a masked gang claiming to represent the Belfast UVF displayed an addition to its arsenal, which it claimed was a 66mm anti-tank gun.

The organisation said: "We make no secret of the fact that the UVF is continually recruiting, rearming and training throughout the whole of north Ulster."

Meanwhile evidence of the continuing IRA activity emerged in the Irish Republic. Des O'Malley, a former justice minister and senior member of the Irish government, accused the IRA of "widespread intimidation" in a case against four men accused of murdering a detective shot during a botched robbery.

Tiny steps are heard in big Bill's backyard

Retailer aims to build on early success in Microsoft's computer heartland, **Peggy Hollinger** and **Paul Taylor** report

North America has seen off more UK companies trying to outsell US retailers than almost any other country. So when a private British retailer last week announced it planned to expand aggressively in the heartland of US computer retailing, observers might be forgiven for thinking it was on a suicide mission.

The UK market is competitive, says one retailer with experience on both sides of the Atlantic, but not as price-driven as the US. He says Americans "will drive 300 miles just to save 5 cents on a television that costs $5,000. The US consumer is 130 per cent preoccupied with price".

But Tiny Computers of Redhill, southern England, which manufactures and sells low-priced, own-brand PCs, is not deterred by the scepticism. "It will work out; we are very confident," says Jon Gilbert-Harris, group managing director and the public face of a business that jealously guards the identity of its owners. Tiny opened six trial stores three months ago in Seattle, Washington, home of Bill Gates' Microsoft – the world's biggest software group. In the first four weeks, Tiny reported sales of $2.5m.

Mr Gilbert-Harris says Microsoft employees from the group's Redmond campus just outside the city are among his best customers. Early success has convinced Tiny it has something to offer the US consumer. The group plans to invest £15m opening 125 stores throughout Washington state, Oregon and California.

But if it is that easy, why haven't others done the same, sceptics might ask. Surely US consumers are more sophisticated technologically than their UK counterparts, with a far higher number of households owning PCs, and price competition is even fiercer?

Not necessarily, says Mr Gilbert-Harris. "Forty per cent of the customers we are seeing do not know what the internet is about," he says. So the US consumer needs almost as much guidance when buying a PC as in the UK. Moreover, the price of a PC when assembled in south-east Asia is the same, whether it is destined for the US or the UK. And with a factory in China, Mr Gilbert-Harris claims Tiny can offer prices 10 to 20 per cent lower than retail chains by cutting out the middleman. But its machines still use cutting-edge technology equivalent to the best that mail order giants such as Dell Computer and Gateway can offer.

Mr Gilbert-Harris says Tiny is a unique proposition: "We are mail order on the high street." Customers who walk into any of Tiny's 87 showrooms are presented with a limited number of computer packages. If they place an order the package is delivered to the doorstep within five to 10 days.

He insists that nothing like it exists in the US, where most consumers buy from either mail order catalogues or from out-of-town superstore chains. One UK retailer, which retreated after an unhappy foray into North America, says there could be a big opportunity for Tiny "if it is sensible".

The fact that Tiny is a private company could prove to be a significant advantage. "The whole nature of the US is sales and volume growth driven," he says. A private company could have more flexibility than a quoted one to focus on sales rather than profit, which would equally allow it to compete on price.

However, there are still risks – particularly in a market where the price of an entry level home PC has fallen sharply over the past two years and where many consumers pay only $750 or less for their machines.

Government unveils pensions revolution based on unit trusts

By Nicholas Timmins, Jane Martinson and David Wighton

The government yesterday launched potentially the biggest pension revolution in a decade with a unit-trust based instrument that can be used in occupational and personal pensions as well as in the government's planned stakeholder scheme.

The instrument, the biggest change since personal pensions were introduced in the 1980s, is a container allowing investment in unit and investment trusts and open-ended investment companies. It has the tax privileges of pensions. The funds will be easily transferable from one type of pension scheme to another without the need to sell investments, the government argues.

With the low initial charges that unit trusts enjoy and fewer financial penalties for changing jobs, ministers hope it will encourage job mobility and boost equity saving. That will in turn improve productivity, it believes.

Alan Milburn, a senior Treasury minister, said: "This will increase the freedom for individuals to follow new career paths without feeling locked into their current jobs."

The new instrument – which does not yet have a name – is not in itself a new kind of pension. It will be subject to the same tax and contribution rules as the existing pension schemes of which it will form a part.

Its advantages, according to the Treasury's consultation paper, are that it will have the low-charging structure enjoyed by unit trusts, with the pooling of investment spreading the risk. Alastair Darling, the chief social security minister, said it would provide "secure, flexible and value for money pensions that those on middle incomes lack under the current system".

There was a mixed reaction from the pensions industry, with some charging it would add to the confusion of about pension products.

The unit and investment trusts sector warmly welcomed it. Paul Kafka, of Fidelity Investment, said it was "the key to unlocking the confusion surrounding pensions at the moment, particularly for high and middle earners".

Some in the life assurance industry fear it could heavily hit their business. Some employers fear it could encourage an exit from defined benefit occupational schemes.

But Ann Robinson, director-general of the National Association of Pension Funds, warned that the complex proposals would lead to mis-selling and many in the industry rejected the government's view that it could be sold cheaply with little need for expensive advice.

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NEWS DIGEST

BIOTECHNOLOGY

Premier resists calls for ban on 'Frankenstein food'

Tony Blair, the prime minister, yesterday refused to bow to mounting demands for a three-year ban on the growth of genetically-modified crops. William Hague, leader of the opposition Conservative party, called for the moratorium until ministers were fully satisfied that the crops – dubbed "Frankenstein foods" by critics – were safe. He claimed ministers were behaving recklessly by ignoring the advice of their own countryside advisers, English Nature, who want the three-year ban.

Earlier Tim Yeo, chief Conservative agriculture spokesman, went a step further by claiming the government was using consumers as guinea pigs in "a vast but secret experiment". Mr Blair said he was satisfied the government was acting responsibly in allowing the crops to be developed. Ministers believe GM foods, which are already widely grown in the US, could lead to cheaper supermarket prices and possible environmental improvements. They are also reluctant to place unnecessary obstacles in the path of UK companies which are at the cutting edge of the biotechnology revolution. **George Parker, London**

THE ECONOMY

Slowdown 'has worsened'

The UK's economic slowdown appears to have worsened in January, with a greater number of companies reporting a decline in demand. The latest survey of the services industry also showed a fall in employment last month, raising expectations that the Bank of England, the UK central bank, could cut interest rates today. The economy may suffer a rough ride in the first quarter, the Chartered Institute of Purchasing and Supply said yesterday. Business would probably contract further before it improved. The institute surveyed 500 companies, covering nearly a third of the economy.

Separate evidence of a slowdown in the shops could also spur the Bank to relax monetary policy. Retail sales volumes fell in January from a year ago, the Confederation of British Industry, the employers' lobby, said. Falling confidence among storeowners reflected dashed hopes that price cuts might have boosted consumer appetite.

"Caution has crept into spending patterns," said Sudhir Junankar, the CBI's associate director of economic analysis.

● Business confidence is rising as executives sense the economy may avoid recession this year, the Institute of Management's quarterly survey suggested yesterday. The institute's management confidence indicator rose from 24 per cent to 33 per cent in the fourth quarter to the end of December, after falling for the whole of the previous 12 months. The indicator peaked at 60 in September 1997. **Christopher Adams and Kevin Brown, London**

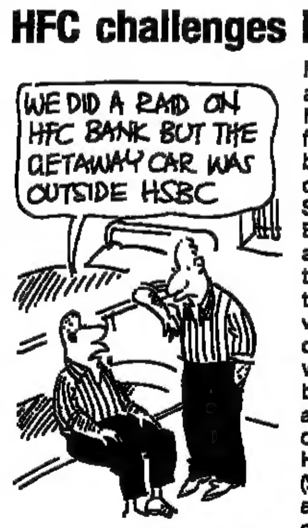
ELECTION COURT CASE

MP 'gave cash in plastic bag'

Mohammed Sarwar, Labour MP for the Govan district of Glasgow in Scotland, gave a rival candidate a plastic bag containing £5,000 ($8,200) in cash in return for a false statement about voter registration irregularities in the 1997 national elections, the High Court in Edinburgh heard yesterday. He is also said to have joked with Badar Islam, to whom he is alleged to have given the the money, that they would go to jail if police knew what they were doing. Mr Islam, a former businessman, told the court he had sworn a false statement before a lawyer after Mr Sarwar offered him £5,000. He said he accepted the money in the back of the MP's car as they went to swear a statement before the lawyer. Mr Sarwar, the UK's first Moslem MP, denies fraud relating to the addition of four names to the electoral register, two charges of attempting to pervert the course of justice and understating election expenses. The case continues. **James Buxton, Edinburgh**

BANKING

HFC challenges HSBC branding



HSBC Holdings' plans to abandon the name of its Midland Bank offshoot in favour of its own HSBC brand have run into a legal challenge. Simmons and Simmons, lawyers for HFC Bank, the consumer finance and credit card offshoot of the US's Household International, have written to HSBC voicing concerns about the confusion the name change will cause to customers. The bank could launch a legal action for passing off if it does not gain satisfaction. HSBC is running a £30m ($49m) campaign to rebrand all the banks in its £42bn global empire to clear up customers' confusion about who belongs to the group. HFC complains that since the start of HSBC's new television advertisements in the UK, its own customers have been getting more confused. HFC said one customer made an appointment with HFC to discuss a loan but turned up at the local HSBC branch. They were not expecting him but clinched the loan anyway. HSBC declined to comment. **George Graham, London**

ALMERA REPLACEMENT

Nissan recruits for new model

The Nissan car factory in north-east England yesterday began a recruitment drive for 800 more workers ready for production of the plant's third model, the Almera replacement, in January 2000. The car factory is the country's biggest. Nissan, which employs 4,200 at the site, will initially offer the recruits contract of 6 to 9 months. Demand for its cars will determine how many become permanent staff. The campaign was launched in the morning and by lunchtime Nissan received more than 800 requests for application forms. **Chris Tighe, Newcastle upon Tyne**

MANAGEMENT INNOVATION

Stumped? Just pinch an idea

Tony Jackson considers the views of a group of business thinkers grappling with the problems of fostering new ideas

WORLD ECONOMIC FORUM

Innovation in business is a familiar topic, but its relevance is increasing. New ideas, after all, mean new revenues: and as the gold rush in internet stocks testifies, revenue growth is something the stock market will kill for.

Most thinking on the subject, as so often with management, comes from consultants and academics rather than practitioners. This is where the Davos World Economic Forum comes in.

A Davos session last week on innovation brought together an assortment of company chiefs: Michael Bloomberg, the American founder and head of the Bloomberg information service; Malcolm Williamson, an Englishman who used to head Standard Chartered Bank and now runs Visa International in the US; Rajendra Pawar, managing director of NIIT, a $1bn IT company based in New Delhi; and Hubert Joly, head of the French operations of EDS, the Texas-based IT consultant.

Four distinct topics emerged. If your business was founded on a new idea, how do you keep momentum? What is your attitude to risk-taking and mistakes? How do you assess new ideas? How can you innovate once you are big?

As for momentum, Mr Bloomberg observed, the answer was not to get in people's way. "The most important success factor for us," he said, "is that over the years, I as CEO have got rid of barriers. We have no offices or titles: We have a common compensation system.

"CEOs are the inspiration at the outset, the rabbis. Then they allow barriers to come in. They don't delegate, because they are afraid they will turn the business over to someone who won't do as good a job. They're right about that, every time. But that's because they're at the end of the learning curve, and the new people are at the start."

The trick, he argued, was for CEOs to model themselves on that icon of American consumer culture, Colonel Sanders. "If you're a customer of Microsoft or Bloomberg, you assume Bill Gates and Michael Bloomberg are involved every step of the way, just as you assume Colonel Sanders cooks every Kentucky Fried Chicken.

"In fact, the Colonel has been dead for a couple of years. Maybe Gates and Bloomberg have as well. But that doesn't matter any more."

'Management decides how big the bets are and when they are a lost cause'

What about toleration of mistakes? "It's necessary to make mistakes, and to push people into making them." Mr Pawar said. "Then everybody watches what happens next, and the lesson is taught by how you respond."

As an ex-banker, Mr Williamson was less sure about that. "People in banking make the same mistakes over and over," he said. "They lend to countries, to hedge funds, on commercial property. My attitude is if people make that kind of mistake, you shoot them."

The issue was one of fairness. "Senior management needs to decide how big the bets are you want to place, and also when they are a lost cause. Every CEO has to set the rules of the game. But I probably take a tougher line on failure than most, because I've seen so much of it."

So to the innovative process proper. Mr Williamson, with bankerly caution, was concerned with the downside. The payments business, he pointed out, was exposed to radical changes through the internet and other technologies. He aimed to ensure Visa's survival.

The first essential was to understand the technologies. "We have people who do nothing but find out what is out there," he said. "And we have venture capital stakes in a lot of high-tech companies, which is easier since we're next to Silicon Valley."

Next, talk to customers: find out not just what they want, but what they will pay for. "Take the idea of a chip card with money on it," he said. "The industry wants that, but the customer doesn't, so I don't either."

Not that a chip was an unattractive idea. "You could have it on your ring, or your PC. The card itself could disappear. Suppose you were flying to Chicago. You could use your chip to log on to the internet, look for a cheap flight and pay for it.

"The chip would contain your air miles, your ticket and your passport. When you got to the gate, you would put it through a reader."

All that, he concluded, was technically possible. "But it would take a very big bill to set it up, and you would have to figure out who would pay."

For Mr Bloomberg, the issue was the sheer lack of predictability in the innovation process. "Unpredictability is the nemesis of any established organisation," he said. "You only run the business by planning. Most companies project revenues. In my business, I can't do that. And if you can't predict, you're not willing to devote management time to the problem. You're unwilling to set up the political structure in the company which can deal with new markets."

Innovation, he concluded, was a religion rather than a science. "You've just got to keep the fire in your belly and plough ahead.

"The press is a massive problem here: your people may be doubtful about what you're doing, and then they read criticism from journalists who either don't know the first thing about it or have been briefed by your competitors.

"Where companies have succeeded, it turns out the barriers were merely obstructions thrown up by non-believers. "Where they have failed, it turned out they really were brick walls."

So to the final question: how do big companies innovate? For Mr Joly, this was a real problem. "You can easily convince yourself that size is an obstacle. The leader gets isolated in a corner office. The culture gets risk-averse. And you end up investing too much in your old, successful formula. When budget time comes round, R&D gets calculated as a percentage of revenues, even though it may earn a lower return that way."

By definition, of course, new ideas start small. How can they be handled by companies for which bigness is everything?

"I'm not sure there's a good answer to that," Mr Joly said. "You can try spin-offs, or intrapreneurship, but I'm not sure I've seen that work. It's more a question of continuous innovation. You don't have old and new businesses – they all have to innovate."

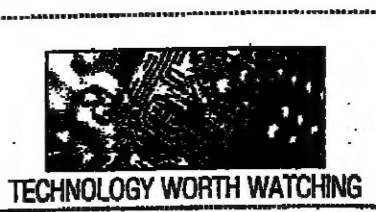
Companies adopted two solutions to this problem, Mr Bloomberg observed, neither of which worked. First was the Skunk Works – the secret establishment set up by Lockheed to develop its Stealth warplanes.

"That's a great idea for defending democracy," he said, "but you don't make any money out of it."

The second approach was to buy small companies with good ideas. "That's easy to do. It shows you're decisive, the board gets behind it, and the investment bankers and the press love it. But the cultures never mix."

The only answer, he concluded, was to accept your limitations. "You just need to understand that it's small companies that create new products. But ifyou can jump on to the bandwagon quickly, you can mitigate that. If your brand is strong enough, you can even overtake them."

In other words, if you cannot have ideas yourself, pinch them from others. It is not an approach likely to please consultants or academics. It sounds uncommonly like real life, just the same.



TECHNOLOGY WORTH WATCHING

Precision chip drawing on microscopic adaptation

US researchers have adapted a common laboratory instrument, the atomic field microscope, so that it "draws" tiny lines just a few dozen molecules wide and one molecule thick. This ability to transfer molecules on to a surface with extreme precision is likely to be useful in manufacturing minute electronic circuits.

Normally, the microscope is used to create three-dimensional images, which it does by tracing the contours of a surface with a minute stylus. Researchers at Northwestern University, Chicago, made use of an effect that is usually unwanted: the tendency of the tip to attract moisture from the air and form a tiny column of water where it makes contact with the surface. They used this flow of water to float other molecules on to the surface, where they are adsorbed.

Dip-pen nanolithography, which was described in the journal Science, is expected to be used in conjunction with other lithographic methods for making chips.

Northwestern: US, tel 8474913115; http://nuinfo.nwu.edu/

Heat wave early warning system

Large numbers of people die each year during heat waves, as the oppressive heat triggers heart attacks and other fatal afflictions. In some cities, better forecasting could help save lives by allowing authorities to issue warnings and open air-conditioned shelters.

A system that can give up to 60 hours' advance warning has been developed by the University of Delaware and installed in Philadelphia and Washington. The programme calculates the risk of dangerous temperature levels by analysing the city's past mortality rate in particular conditions, along with the type and severity of a predicted hot air mass.

University of Delaware: US, tel. 3028316406; gingpin@udel.edu

Water watcher from space

Space satellites will soon be used to monitor river levels and provide improved flood warnings. A system is being developed that will be able to detect changes of a few millimetres in water levels.

The system calculates the river's height using information from sensors about the tilt and pressure on buoys in the river, and positional information from a global positioning system receiver. It will also provide better information on reservoir management, pollution control, land drainage and conservation.

Science Systems, a Bristol-based software company, is developing the device for the British National Space Centre.

Science Systems: UK, tel. (0)1179717251

Overcoming a robot obstacle

Researchers at Washington University's Center for Robotics and Automation have found a way to make a robot stop and "think". They have devised an algorithm that allows the robot to integrate high-level decision-making with low-level data gathering.

If a manufacturing robot encounters an obstacle, it usually requires a human to halt the process. With the new model, the algorithm knows where the robot is in the process, stops the robot and communicates the data to the high-level control, and tells it to proceed when the path is clear.

Washington University: US, e-mail tem@wurobot.wustl.edu

Vanessa Houlder

GROWING BUSINESS 3i AND ELECTRA

Making sense of a match

The possible link-up between two UK private equity firms is complicated by their differing styles, writes **Katharine Campbell**

3i, the UK's largest private equity business, has had rival Electra Investment Trust in its sights for years. But it is almost as if there had been a gentleman's agreement that while Michael Stoddart, Electra's leading light, was still in place, the trust was off limits.

Three weeks ago, the month before Mr Stoddart was due to step down as chairman of EIT, Brian Larcombe, chief executive of 3i, made the initial overtures.

There was a double motive. The financial case for the premium-rated 3i acquiring EIT, which had long traded at a discount, was clear, and the logic of trying to buttress its position in the FTSE 100 obvious. But it was also felt, initially, that there was sense in taking on the executives from Electra Fleming, the trust's management company.

However, even with Mr Stoddart departing the scene, absorbing the talented but highly individualistic Electra team was always going to be tricky. 3i has no history of bringing in new blood at a senior level – partly because of the gulf in earning opportunities between 3i's option-based remuneration and the highly lucrative industry standard of carried interest and co-investment schemes.

Naturally it is a gulf that is causing considerable consternation among Electra executives, and it now looks perfectly possible that 3i could wind up acquiring the trust – while the Electra Fleming team went off elsewhere.

This in turn raises questions about what that would do to the logic of any takeover. How different are the two businesses in reality? Does Electra need 3i to teach it to do big deals and to manage its portfolio more effectively? And how do the two businesses compare internationally?

Broadly, the answer is that, while the Electra managers would undoubtedly add spice and depth, 3i has evolved more rapidly in recent years than it is often given credit for. It appears adamant it could also make sense of the transaction with the assets alone.

The big deal debate, for example, continues to haunt it – but not wholly justifiably.

"If the Electra people joined, I would take bigger deals to 3i," says one London investment banker, expressing a widely held view.

3i is constantly having to explain why, despite being the UK's largest private equity house, it shuns very big leveraged buy-outs – those over £250m ($410m) – even if, given the problems that seem to be surfacing for competitors that do play in that arena, it may yet prove a reasonable decision. It gets pigeon-holed further because it does do a huge number of very small buy-outs – 164 in the sub-£10m category during 1998.

In fact, Electra does not play at the top end either. It participated unsuccessfully in the auction of William Hill, the bookmaker bought by Nomura and soon to be floated.

Last year its largest UK buy-out was the £82m purchase of Leisure Parcs. 3i, by contrast, backed a £150m transaction for Asco, an Aberdeen oil service business (a £56m buy-in in 1996) which bought L&L Oil Company of New Orleans.

In Germany Electra pulled off the DM950m ($552m) buy-out of Deutsche Woolworth – probably three times the size 3i's German operation would consider. But Deutsche Woolworth is also considerably bigger than any deal Electra has ever led in the UK. In reality, Electra does quite a bit in the £50m-£100m range – as does 3i.

Stoddart: leading light

They do differ in style – even if 3i bridles at the assumption that because it is big it lacks flair. "The Electra boys are tenacious. They will stick at a deal that is a bit of a dog where everyone else has lost interest," says one corporate financier. Another adds: "Electra is full of mavericks, they have loads of imagination."

Its largest holding, valued at £48.4m at the end of last September, is in The Stationery Office, an indisputably tricky affair where it seems to be achieving an impressive turnround of a loss-making business. But even there, 3i also bid for the privatisation, and, despite losing out, put in a tranche of mezzanine financing.

Another common jibe against 3i is that its executives – constantly off to churn out the next deal – pay scant attention to managing the portfolio. This was once undoubtedly true, but parts of the 3i business have changed markedly in the past five years since it has developed its outside fund management operation – now amounting to £1.4bn. This has allowed the group to take controlling stakes in businesses, and it now has majority positions in 76 buy-outs in the UK and 32 on the continent. For these it has developed a different style. Regional portfolio management teams have been established, and while 3i would never pretend to run its companies, it is much more pro-active.

Electra was relatively late to the European mainland . . . but its US business has been consistently successful

Bill Passmore, chairman of Morse, the computer systems integration company, says: "They work at a strategic level – unlike some venture capitalists who interfere over trivial issues, constantly seeking data that even the board doesn't need to run the operation."

He declines to comment on 3i's involvement in management changes at Morse after the 1995 buy-out. But it certainly appears that 3i adopted a pretty active stance. In early 1997, following a phase of very rapid growth, Egon Zehnder, the headhunter, was called in to perform a management audit. Two of the three original members of the buy-out team left, while Duncan McIntyre, formerly finance director, was made managing director.

Unlike 3i, however, the Electra team take non-executive positions on the boards of portfolio companies, and one of the interesting questions is whether they would be allowed to retain those – in the event of a deal – even if they did not join 3i.

The continental market, meanwhile, has been a long hard slog for 3i, but is now growing fast, with 85 investment staff on the ground. The group ranks second only to CVC Capital Partners in the buy-out league tables, while it is achieving eye-catching realisations with its technology investing, particularly in Germany.

Electra was relatively late to the European mainland – but has done some big deals recently. Of at least as much interest internationally is Electra's consistently successful US business, a market from which 3i withdrew in the run-up to its 1994 flotation. There its expertise would have been particularly valuable.

In sum, grafting the Electra team onto 3i might in theory still be the dream deal – but, given the personalities, probably something of a pipe dream.

مكرر من الاصل

CINEMA

'Ab Fab' in the desert

Nigel Andrews warms to a hippie fable

HIDEOUS KINKY
Gillies MacKinnon

LA VITA E BELLA
Roberto Benigni

A BUG'S LIFE
John Lasseter

LIVING OUT LOUD
Richard LaGravenese

PECKER
John Waters

Kate Winslet could not have made a better career move. After the ultimate wet look in *Titanic* she now spends two hours drying off in hottest Morocco. And after sluicing a billion filmgoers' eyes by loving Leonardo DiCaprio, she plays a wife who sloughs her London husband, a poetry-writing cad, to become a hippie-nomadic single mum in the land of the sheltering sky.

I kept thinking while watching *Hideous Kinky*: "This is *Absolutely Fabulous* in the desert." And Gillies MacKinnon's film screenwritten by brother Billy from Esther Freud's novel is fabulous. It keeps that show's comic kernel – flower-power mum more naive and screwloose than her offspring – while letting serious themes and potent scenery accrete around it. This Morocco is lensed by John de Borman as if every colour in the world had leapt up to lick the camera. You never doubt that a vulnerable Londoner could be spiritually roped here: ravished by a belief that Morocco's beliefs, distilled in the rainbow-hued asceticism of Sufism, could contain the meaning of the life.

Winslet's ruddy-cheeked, questing-eyed heroine drags her two little girls from Marrakech to coast, then from coast to a commune-style palace run by a greying Pierre Clémenti (former incarnation of counter-cinema in *Belle du Jour* and *Pigsty*), finally back to Marrakech. One girl gets left casually behind, though, to be abducted later and brainwashed by a mad Christian missionary. Winslet's finest moment is to scour the country for her and then bawl all hell at the missionary.

Finally we are back in the city, among the snake charmers and street cartwheelers, one of whom becomes KW's handsome lover (Saïd Taghmaoui), before we rediscover sense by lying back and thinking of England.

MacKinnon, who used to be a touch stiff-and-stagey as a director (*The Playboys*), is wonderfully fluid here. Dream sequences are woven from the same high-colour cloth as daily events; offhand comedy unfolds in off-centre parts of the wide screen, like one daughter's hilarious struggle to loop a turban; and there are expressionist ingenuities, like the bonnet-perched camera shuddering in time to the eyelids of the sleepy driver it is watching, before his truck slews off the road.

Like truck, like heroine. This is the tale of a woman surviving a *non-fatal* existential skid and the kids who almost crash with her. They are played with perfect, bewildered commonsense by Bella Riza and Carrie Mullan, two Alices trying to get back out of the looking glass. ("When I grow up," says one, "I want to be normal.") The film is Winslet's acting triumph, though. She stays winning when every other actress would have lost us, playing a woman who hazards sense on a daft throw of the religious/spiritual dice. Maybe her next role should be as England's ex-football manager.

A good start to February gets better. Confronted with *La Vita E Bella* (*Life Is Beautiful*, opening next week), some normal people have come out in a rash of censoriousness. "You cannot make wistful sentimental comedy out of the concentration camps" they cry of Italian comic Robert Benigni's prizewinning tale of a Jew and his little son trying to survive as 'guests' of Hitler.

Why can't you make such comedy? You can make black comedy (Mel Brooks) or sentimentalised tragedy (Spielberg). Why not Benigni's Chaplinesque shaggy waiter story about a book-loving working-class family man in small-town Italy? Our hero's response to Fascism starts as benign incomprehension – he walks past shop signs that say no Jews and homosexuals, ad-libbing derisive variants: "No Chinese and kangaroos. No spiders and Vizigoths" – and ends with his sustained attempt to remain a playful dad to his child even in a doomy, ash-grey, studio-built *stalag*.

The boy is persuaded that everything is a game, from food-deprivation to people 'disappearing,' and that if he plays well he can win.

Sentimental? But what would you have done as an Auschwitz parent? Benigni's popeyed, pixilated face and motorised speech-patterns convey intelligent perplexity better than any modern comic save Woody Allen. There are hilarious early scenes in which he masquerades as a schools inspector – Gogol with extra giggles – or drops his jaw in response to such state-approved thuggery as an uncle's workhorse being painted green and daubed with the words "Achtung. Jewish horse". But the real courage of *Life Is Beautiful* is in the final sequence: better than Chaplin or Spielberg to my mind because it honours those who fought the grotesque and abnormal by trying, against all hope and odds, to assert the normal and purposeful.

Disney's *A Bug's Life* would have led the column in a normal week. Leading the column in the film – a line of marching ants made computer-animation-real by *Toy Story*'s workteam and director (John Lasseter) – is Flik. He is clearly cousin to Woody Allen's hero-as-schlemiel in DreamWorks' *Antz*, beginning as a food-carrier, running off to recruit a warrior band to fight a deadly enemy, finally winning a princess's hand.

The word you correctly hear is "Snap!" But DreamWorks stole the idea from Disney rather than vice-versa. *A Bug's Life* is not quite so good to laugh at but much better to look at. There are giant cornstalks, Empire State-sized flowers and ant tunnels without end like a perfect world's Jubilee Line ("You *will* go to the Dome"). As for the flying or fighting insects, they are sensational. Highest points go to the Hungarian caterpillar (Peter Lorre's voice in Sydney Greenstreet's body), the baby aphid with the silly grin, the evil grasshoppers who rest up between massacres in a *Wild Bunch*-style "Mexico", actually an abandoned sombrero... Oh, give them all highest points. And don't leave before the final credits which contain the best joke of all.

The dismaying *Living Out Loud*, starring Danny DeVito and Holly Hunter, is based on two stories by Anton Chekhov. Did he give permission? The Russian would surely have drawn the line at scenarist Richard LaGravenese (*The Bridges Of Madison County*, *The Horse Whisperer*) turning "The Kiss" and "Misery" into politically correct Hollywood pap for his writing-directing debut.

Hunter is the rich divorcee determined to find herself, even if that means loving and then chucking Danny DeVito's enamoured lift-operator. Meanwhile she buddies up to bar singer Queen Latifah, a sort of hire-by-the-night earth mother of female liberation, black, lesbian and funky.

The film begins with brief gusts of promise, including a clever illusory suicide scene, but ends in maudlin pc moralising. LaGravenese should stick to horses and bridges or go back for inspiration to his first movie, which really did strew intelligent modern romance through New York: *The Fisher King*.

Pecker is barely better. John Waters, the rude bard of Baltimore, once gave us *Pink Flamingoes* and *Female Troubles*, guaranteed to send Aunt Edna screaming to a mental home or your money back. Since becoming mainstream, however, with *Hairspray*, *Serial Mom* and such, Waters' cinema has become watered down. *Pecker* tells of candid-snaps amateur photographer Edward Furlong (the T2 boy now grown up) and the outrages he visits on polite Baltimore society.

There are pompous middle-aged women, "funny" homosexuals and a granny with a talking Madonna statue. At the end our hero turns down a Whitney Museum exhibition in New York, instead inviting critics and Whitneyites to a rude wake *chez soi*. The toast? "The death of irony." The moral: It takes a dead body to know one.

'When I grow up I want to be normal': Kate Winslet, magnificent as the nomadic mother, with Carrie Mullan (right) and Bella Riza in 'Hideous Kinky'

Much squalor, little irony

OPERA

DAVID MURRAY

Lulu
Flanders Opera

The first operatic production by Ivo van Hove, already a notable theatre director in Belgium, is for the Flanders Opera: Alban Berg's haunting, intricately wrought *Lulu*. His staging has its strengths, and musically the performance is first-class, as conducted by Bernhard Kontarsky with singers who can do satisfying justice to Berg's vocal lines. They can all act, too. Definitely *vaut le voyage*, to Antwerp this week or to Ghent the next.

If you detect a note of coolness, it's only because this *Lulu* is not particularly moving – though of course harrowing at its grisly end. Van Hove seems to imagine *Lulu* as a romantic novella set amid sordid circumstances and directs the tale quite straight, with lashings of squalor but virtually irony-free, unlike Wedekind's original texts *or* Berg's score.

A crucial vein of very black comedy is lost, and with it some dimensions of the main characters. This is an opera about specific *fin-de-siècle* decadence, which involves self-mocking hypocrisy all round. Van Hove's version, with a lot of gross crotch-grabbing in the Act 3 party to emphasise how sordid things have become, makes it a simpler kind of gangster-story.

Besides, van Hove's production is "designer-led", dominated by Jan Versweyveld's tiers of metal cages, like a huge warehouse. They really *are* cages in the Prologue, where the principals are introduced as circus animals; later they become the walls of the Painter's studio, the bookcases of Dr Schön's library, a courtyard-with-balconies for Lulu's Parisian birthday party, and finally the grim industrial wasteland, where her brief career as a prostitute crashes.

But they never suggest a "respektabel" milieu where hypocrisy thrives – only rough, late-20th-century locales, with no furniture but crude circus-stands. Wedekind's social satire and critique, precisely dated before the first world war when public manners and *mores* were different, loses its roots. And for the treasured portrait of Lulu, which follows her wherever she goes, van Hove substitutes a video film: a clumsy and tiresomely implausible device.

Yet the visible action, *despite the gimmickry*, remains strong and clear. Constance Hauman's pretty, preening sexpot of a Lulu – no mystery about her – is gorgeously sung. So are all her besotted lovers: Guy de *Mey's hapless Painter*, *David* Pittman-Jennings' Dr Schön, gaunt and stern, his son Alwa (Christopher Lincoln, less *désespéré* than he might be but intrepid in his high register), Grant Dickson as seedy old Schigolch, and above all Susan Bickley's brave, touching Countess Geschwitz.

These accomplished principals are backed by a sterling team in the lesser roles, mostly doubled or tripled as Berg wanted. Werner van Mechelen's Athlete, John Graham-Hall's horrid Marquis (Lulu's would-be pimp) and Piet Vansichen's huge, greasy Banker are outstanding cameos. If one's withers are not much wrung, the music is constantly ravishing, *rendered with love and* cogent sympathy by Kontarsky. And Friedrich Cerha's "completion" of Act 3 still seems a miracle, the greatest musical rescue of the century.

Further performances in Antwerp February 4 and 7 (mat); in Ghent, February 13, 16, 18, 21 (mat) and 23.

Gorgeously sung: Constance Hauman's pretty, preening sexpot of a Lulu with Christopher Lincoln as Dr Schön's son, Alwa

OBITUARY PAUL MELLON

Devoted to art and the turf

Paul Mellon, who died on Tuesday at his home in Virginia aged 91, was a great lover of racehorses, of art, and of Britain. Heir to his banker father Andrew's billions, he decided early on that he had no vocation for business and instead devoted his life to philanthropy. He is estimated to have given away over \$600m, much of it to education but a great deal to art.

His greatest benefaction, \$167m in 1977, was to endow an institution which combined all three of his passions: the Yale Centre for British Art at his old university. His first purchase, *while a student at his other* alma mater, Clare College, Cambridge in 1935, was a Stubbs equestrian painting; later, he endowed the Yale centre the finest collection of British art, much of it equestrian, assembled this century.

He was following in a family tradition. Andrew Mellon had been instrumental in creating the National Gallery of Art in Washington, giving it his art collection. When Andrew died in 1937, Paul pushed through the construction of the gallery, which opened in 1941. He was subsequently its president and chairman and financed the addition of the East Building in 1978, as well as giving the gallery many great paintings.

Late in life Mellon added a *love of the Impressionists to* his fondness for British art; Yale received much of this collection. However, to the end, his homes were furnished with great paintings by Cézanne and Constable, *Van Gogh and Gainsborough*, Bonnard and Stubbs.

Sotheby's and Christie's will be agog to discover how much of the art has been bequeathed to institutions and how much to his family – and whether they are planning to sell it on to a quality starved art market.

The British art world has benefited greatly from Mellon's generosity. The Tate and the Fitzwilliam received major bequests and he also established the Paul Mellon Foundation for British Art in Bloomsbury.

One example of his generosity concerns Stubbs' two great paintings of reapers and haymakers. Mellon was hoping to export them to the US when he learned that the Tate was launching an appeal to keep them in the UK. He *anonymously* gave the Tate four works by Vuillard to auction off. The £100,000 still needed was raised.

But for all his eye for a great painting it was perhaps horse flesh that excited Mellon most. His greatest, and most profitable, investment was Mill Reef, considered by many to be the greatest race horse of its generation, and the winner of the Derby, and many other Classic races, in 1971.

Antony Thorncroft

INTERNATIONAL

Arts Guide

AMSTERDAM

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
Carmen: by Bizet. New staging by Andreas Homoki, conducted by Edo de Waart. The designs are by Wolfgang Gussmann and Gabriele Jaenecke, and the cast includes Carmen Oprisanu and Martin Thompson; Feb 6, 9

BARCELONA

EXHIBITION
Fundació Joan Miró
Tel: 34-93-329 1908
www.bcn.fjmiro.es
Magritte: celebrating the centenary of the artist's birth. Includes over 90 paintings and 50 photographs; to Feb 7

BERLIN

CONCERT
Konzerthaus
Tel: 49-30-203090
Berlin Symphony Orchestra: conducted by Eliahu Inbal in works by Liszt. With mezzo soprano Doris Soffel and pianists Donald Sulzen and Enrico Pace; Feb 6

OPERA
Deutsche Oper
Tel: 49-30-34384-01
● Faust: by Gounod. Conducted by Sebastian Lang-Lessing in a staging by John Dew; Feb 4
● Manon: by Massenet. Conducted by Sebastian Lang-Lessing in a staging by Cesare Lievi; Feb 5

BRUSSELS

CONCERT
Palais des Beaux Arts
San Francisco Symphony Orchestra: conducted by Michael Tilson Thomas in works by Ives, Canteloube and Prokofiev, with soprano Christine Brewer; Feb 7

OPERA
La Monnaie
Tel: 32-2-229 1211
Lady Macbeth of Mtsensk: conducted by Antonio Pappano in a new staging by Stein Winge, with sets by Benoît Dugardyn and costumes by Jorge Jara; Feb 5, 7, 10

CHICAGO

OPERA
Lyric Opera of Chicago
Tel: 1-312-332 2244
www.lyricopera.org
Roméo et Juliette: by Gounod. Conducted by John Nelson in a staging directed by Nicolas Joël. The cast stars Roberto Alagna and Angela Gheorghiu; Feb 5

FRANKFURT

CONCERT
Alte Oper
Tel: 49-69-134 0400
San Francisco Symphony Orchestra: conducted by Michael Tilson Thomas in works by Barber and Mahler, with violin soloist Gil Shaham; Feb 6

GLASGOW

OPERA
Theatre Royal
Tel: 44-141-332 9000
Scottish Opera: Der Rosenkavalier, by R. Strauss. New staging by David McVicar, conducted by Richard Armstrong. The cast includes Joan Rodgers; Feb 6

HANOVER

CONCERT
Grosse Musikhalle
San Francisco Symphony Orchestra: conducted by Michael Tilson Thomas in works by Mendelssohn and Mahler, with violin soloist Gil Shaham; Feb 5

HOUSTON

THEATRE
Houston Grand Opera, Wortham Center
Tel: 1-713-227 2787
www.hgo.com
A Little Night Music: by Sondheim. Grant Gershon conducts a production by Michael Leeds, with a cast including Frederica von Stade, Thomas Allen and Sheri Greenawald; Feb 6, 9

LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
● London Symphony Orchestra: conducted by Colin Davis in works by Elgar, Bartók and Beethoven, with violin soloist Sarah Chang; Feb 4
● London Symphony Orchestra: conducted by Colin Davis in works by Beethoven and Elgar, with piano soloist Richard Goode; Feb 7

Royal Festival Hall
Tel: 44-171-960 4242
Royal Concertgebouw Orchestra: conducted by Riccardo Chailly in works by Brahms and Schoenberg, with violin soloist Vadim Repin; Feb 4

MUNICH

CONCERTS
Philharmonie Gasteig
Tel: 49-89-5481 8181
● Philharmonie Folkwang Essen: in works by Bach and Beethoven, with violin soloists Nigel Kennedy and Peter Daniel; Feb 5
● Symphonieorchester des Bayerischen Rundfunks: conducted by Lorin Maazel in works by Mozart and Bruckner, with piano soloist Murray Perahia; Feb 4

EXHIBITION
Haus der Kunst
Tel: 49-89-211270
The Night: exploring the development of the nocturne, or night time scene, in western art from the 15th to the 20th century. Includes early examples by artists including Cranach, baroque works by Caravaggio and his followers, and works by the German romantics. Other artists represented include Goya, Munch, Max Ernst and Magritte; to Feb 7

NEW YORK

EXHIBITION
Guggenheim Museum
Tel: 1-212-423 3500
www.guggenheim.org
Picasso and the War Years 1937-1945: more than 75 works - paintings, sculpture and works on paper - which together explore Picasso's response to the period which began with the Spanish Civil War and ended with the liberation of France. Includes major public and private loans; from Feb 5 to May 9

OPERA
Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
Moses and Aron: by Schoenberg. Conducted by James Levine in a staging by Graham Vick, with sets and costumes by Paul Brown. Cast includes Philip Langridge and John Tomlinson; Feb 8

PARIS

CONCERTS
Salle Pleyel
Tel: 33-1-4561 6589
● Orchestre de Paris: conducted by Frans Brüggen in works by Beethoven, Hummel and Schubert, with piano soloist Marie-Josèphe Jude; Feb 4
● Orchestre de Paris: conducted by Frans Brüggen in works by Bach, Mozart and Mendelssohn; Feb 10

EXHIBITION
Grand Palais
Tel: 33-1-4413 1730
Un ami de Cézanne et de Van Gogh: le docteur Gachet (1828-1909). Exhibition devoted to the doctor and painter who was a friend to Cézanne, Pisarro, Monet and Renoir as well as to Van Gogh, who famously spent the last weeks of his life with Gachet at Auvers-sur-Oise; to Apr 26, then transferring to New York

OPERA
Théâtre des Champs Elysées
Tel: 33-1-4952 5050
Opéra National de Lyon: Zelmira, by Rossini. Conducted by Maurizio Benini in a staging by Yannis Kokkos. The title role is sung by Mariella Devia; Feb 10

TAMPERE

EXHIBITION
Sara Hildén Art Museum
Tel: 3583-214 3134
www.tampere.fi/hilden
Tony Cragg: 33 sculptures and a large number of drawings by the British-born artist, now working in Germany. The works on display are from the period 1988-1998; to May 9

TOKYO

CONCERT
Suntory Hall
Tel: 81-3-3584 9999
National Symphony Orchestra Washington: conducted by Leonard Slatkin in works by Bernstein, Takemitsu, Copland and Mussorgsky, with clarinet soloist Richard Stoltzman; Feb 8

TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**

Monday to Friday, GMT:
06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

SAMUEL BRITTAN
ECONOMIC VIEWPOINT

Primitives return

Fiscal policy is threatened by a crude obsession with Budget balance that ignores business fluctuations

At first glance the outlook for the UK Budget is pretty satisfactory. This is suggested by the independent projections in the "Green Budget" presented by the Institute for Fiscal Studies together with Goldman Sachs and also by other studies.

Gordon Brown, the chancellor, now concentrates on two main measures of balance, the surplus on the current Budget and the public sector debt ratio. The aim is to achieve a current surplus in a normal year, with fluctuations around it in the course of the business cycle.

The Green Budget projects a bare current balance in 1999-2000, followed by small deficits in the following two years, offset by equivalent surpluses later. The public sector debt ratio is expected to fall.

Other measures seem equally satisfactory. Public sector net borrowing is expected to be slightly below 1 per cent of gross domestic product in the coming financial year. This is the measure most nearly equivalent to the one used in the Maastricht conditions, which impose a limit of 3 per cent.

It is true that the Green Budget authors suggest that there is little room for net tax remissions and advocate a "neutral" Budget. This advice is based on the expectation that in an economy "flirting with recession" the economy will be stimulated by further falls in interest rates, down to perhaps 4½ per cent by the end of next year.

Hardened Budget-watchers will turn early to the section of the Green Budget on "what can go wrong". There are no prizes for guessing that it is the the threat of a recession a good deal worse than the slowdown to ½ per cent growth assumed in the central forecast. There are obvious risks from further trouble in Latin America, Russia, Japan or south-east Asia. The biggest danger of all is the time bomb ticking away in the US stock market.

But the point on which I wish to concentrate here is the primitive reaction to the risks of such a deterioration from many financial and other commentators.

The Green Budget helpfully presents an alternative projection based on a reasonably severe, but far from worst case, forecast in which output falls by 1 per cent in the fiscal year 1999-2000 and then very slowly recovers. This alternative shows public sector net borrowing moving to well above the Maastricht three per cent early in the next century. Worse still is the projection of the net public sector debt. On the recession basis, so far from dipping below 40 per cent it rises rapidly to nearly 45 per cent the year after next and reaches 51 per cent by 2003.

Nevertheless the widespread belief that in the face of an economic deterioration, Mr Brown would have to increase taxes or cut his public spending plans is crude beyond belief.

There is never a complete consensus among macro-economists on anything. But there is a near consensus that the target balance for the Budget should be achieved in a normal year or over the whole of a business cycle. In boom years, Budget surpluses should not be "given away" and in years of slump deficits should be accepted. In other words the built-in stabilisers should be allowed to cushion the effects of the cycle.

Even many economists who are very suspicious of fiscal demand management would still support a balance over a complete cycle on the grounds that frequent changes in tax rates are unnecessarily disturbing. It is better to fix rates from a long-term point of view, just as individual families would be justified in seeing through both good and bad years on the basis of some idea of their long run incomes.

It is therefore alarming how much these elementary points have been lost sight of in the obsession with short-term fiscal balance which has arisen as a combined by-product of the Maastricht criteria, and domination of economic comment by bond market analysts.

Although I have taken the UK position as my reference, the point applies elsewhere. Next time anyone tells you at lunch that some countries in the euro group are weakening in their commitment to fiscal stability, just ask whether he is speaking on a cyclically adjusted basis. That should lead to a change of subject before coffee.

In the US the argument applies in reverse. Much of the animated discussion on how to use the Budget surplus is premature, as it is based on the dubious assumption that a large surplus is here to stay instead of being the product of an unsustainable boom.

Admittedly there are many countries that cannot go far in the way of cyclical adjustment to their budgetary plans either because their underlying position is too weak, or because international confidence in their economies is so low that they cannot afford to take risks with market sentiment.

This is all the more reason that the western economies, whose governments and central banks give a lead in the formation of that very sentiment, should adopt a more rational view of what prudence involves.

The UK government does accept that fiscal prudence is a matter for a whole business cycle and has presented cyclically adjusted estimates. The Green Book authors have revised these and still show an adjusted current balance for the years ahead, which by definition would be very little affected by even a severe recession.

Unfortunately on most occasions the chancellor has not used these estimates but has instead insisted that the crude numbers will still be in balance even on more pessimistic variants of the Treasury's projections. I hope he does not have to learn the hard way that both boom and bust can go much further than any official forecast would dare to project.

Cyclically adjusted estimates of the Budget are often mistrusted because they are highly uncertain. But the question is whether they are better than nothing. Moreover the uncertainties about cyclically adjustments are no greater than those for the crude projections.

The *average* Green Budget error in forecasting public sector borrowing two years ahead has been £18.6bn. or 1.4 per cent of GDP. The correct inference is that governments should aim at a surplus in normal non-recession years large enough to offset error and wishful thinking.

The built-in stabilisers are sometimes criticised from the opposite direction. Enthusiasts for fiscal policy often say that the extent of a stimulus or check should not depend on the accident of marginal tax rates or the size of the public sector but on the overall economic outlook. The argument for the built-in stabilisers is one for rules rather than discretion. They allow some automatic cushioning when the economy goes into recession without either the delays or the eventual overreaction which can be expected from ministerial discretion. Moreover the use of these stabilisers goes with the grain of people's long-term income expectations and does not impose tax changes which rational citizens would expect to see reversed.

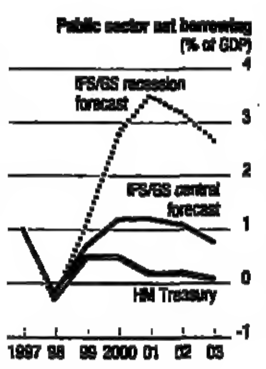
The planned popular version of the Budget would be money well spent if it traded a few paragraphs from Labour's usual mantra about public services and fairness for an adult exposition of thing things: how fiscal prudence can be consistent with budget deficits and how these may be indeed necessary if the stronger countries are to sustain the world economy.

Fiscal projections

Surplus on current Budget (% of GDP)	1997/98	98/99	99/2000	2000/01	01/02	02/03	03/04
HM Treasury, Nov 1998	-0.5	0.6	0.2	0.3	0.8	1.0	1.0
IFS/Goldman Sachs	-0.8	0.7	0.0	-0.3	-0.1	0.1	0.3
Surplus on current Budget (cyclically adjusted) (% of GDP)							
HM Treasury, Nov 1998	-0.6	0.3	0.5	1.0	1.2	1.0	1.0
IFS/Goldman Sachs	-1.8	-0.1	0.6	0.5	0.1	0.0	0.3

Net public sector debt (% of GDP)	98/99	99/2000	2000/01	01/02	02/03	03/04
HM Treasury	40.2	38.9	37.8	36.4	35.1	33.9
IFS/GS central	40.8	40.2	38.6	38.3	38.5	37.7
IFS/GS recession	40.8	41.6	44.5	47.8	50.0	51.4

Sources: Institute for Fiscal Studies; Goldman Sachs



LETTERS TO THE EDITOR

Internet trading helps stock price adjustments

From Mr Keith Phair.

Sir, Lex (January 29) is seeing the wrong parallel between the role played by programme trading in the 1987 crash and the role which trading on the internet could play in a crash today.

The root cause of crashes is always the same: liquid markets sometimes aren't! And the greater the market power of those who think the market is liquid and the more they depend on market liquidity, the bigger the crash will be when it comes.

On the other hand, the greater the fear of a price crash (and the less influence any group of sellers has on the broad market), the less likely a crash becomes.

In 1987 "portfolio insurance" products led to significant market power in the hands of a few "mechanical" hedgers who were absolutely reliant on liquidity; the disruptions of the previous week and the lack of circuit-breakers helped create the downside momentum. There was no special news event. Since then, the only comparable dynamic in a crash was the one in autumn 1998 when a relatively small number of highly leveraged players became "mechanical" forced sellers of collateral.

Any crash in which internet trading plays a part will likely *only* be triggered by a surprise negative news event affecting technology stocks, because internet trading makes tech stock prices the product of many thousands of small, generally opposing, buy/sell decisions by retail investors. Retail investors are price-takers with no market power and therefore cannot cause a crash. Surprise news can trigger a crash, but internet trading only facilitates price adjustments and puts retail on an equal footing with wholesale investors.

The problem today is that US Federal Reserve chairman Alan Greenspan's call of "irrational exuberance" two years now seems like the boy's cry of "wolf" and his comments about internet stocks will be treated accordingly. Perhaps it is in the market's interest that it should now be someone else's call?

Keith Phair,
Thatched Farm,
Woodbridge Road,
Waldringfield,
Suffolk IP12 4PW

Farm levy is cold comfort

From Mr Nigel Burke.

Sir, Nobody seems keen on the principle of a flat-rate levy on food shops in the UK to fund the Food Standards Agency, but its effect will be greatest in rural areas. It is well known that many rural shops exist on a knife-edge, and £90 could represent the shop's ability to employ a shop assistant for a week, or not. It is unfortunate that Nick Brown, agriculture minister, described the £90 fee as "one sandwich per week", which is cold comfort when the bill comes in on top of all the others.

The Ministry of Agriculture's consultation exercises has been encouraging us to believe that the government intends to listen to the countryside, and if it has been listening at all, it should know that rural shops need life support measures, and absolutely no new burdens.

Nigel Burke,
head of policy,
Countryside Alliance,
The Old Town Hall,
367 Kennington Road,
London SE11 4PT, UK

Inefficiencies in Japanese production

From Mr Ronald Dore.

Sir, One can understand why J.J. Boulter (Letters, January 26) needs to vent his spleen after all those years of being preached at about Japanese superiority.

Of course he is right about the difference between Japan's interconnected society and our fragmented competitive one. But he has obviously been listening to the wrong evangelists.

Japanese productive efficiency, achieved by its committed employees, does pretty well in terms of value added per employee (at least when domestic demand levels allow high capacity utilisation). It also does pretty well in terms of value added per unit of capital employed. It delivers good wages and job security too. What it does not do is deliver high profits and executive salaries, especially in recessions like the present one.

Mitsubishi Motors is certainly in considerable trouble. And the fact that many other Japanese executives besides its president hanker after the sort of profit levels, and the generous share of value added, that Mr Boulter expects and doubtless enjoys, may well be a sign that Japan is changing. They may no longer be able to count on the conscientiousness that makes just-in-time systems workable. And they had better divert their well known capacity for long-term planning to some of the sort of problems we have, such as coping with ever-expanding prison populations, for example.

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PERSONAL VIEW HENRY KAUFMAN

Too much on their plate

Managing banks has become nigh-on impossible because of the complex nature of today's financial markets

The ability of senior managers to manage leading financial institutions is being strained by the complexities of modern financial markets.

The tasks of senior managers used to be easier. Immediately after the second world war, interest rates were not particularly volatile and financial markets were segmented. Banks made business loans; thrifts provided mortgages; insurance companies wrote insurance policies; mutual funds were a minor curiosity; and pension funds were inconsequential. The whole fabric of financial regulation was designed to ensure that institutions remained profitable most of the time.

This permitted more intimate relationships between creditors and debtors. Commercial and investment bankers thought of themselves as a source of support for their clients even in troubled moments. They expected and got access to confidential information. For their part, corporate treasurers felt financial relationships should have a high degree of permanence.

In contrast, today's financial world – though extraordinarily flexible and innovative – is hard to manage, and getting harder. Think of the huge diversity of new financial instruments. The lengthy list would start with negotiable certificates of deposits and the eurodollar market, and would include derivatives, zero-coupon bonds and asset-backed securities of endless variety.

At the same time, there is a prodigious array of institutions that were of limited importance 30 years ago, even if they existed at all. These include private pension funds, state and local retirement funds, government-sponsored mortgage entities (Fannie Mae and Freddie Mac), indexed funds, and the now-infamous hedge funds.

The result is, of course, greater access to finance, greater ability to take risk, and a relentless quest for short-term performance. But it is a financial world in which older virtues – like knowing your customer, minimising rather than managing risk, and learning how to turn down a promising but dodgy deal – have been eclipsed.

And it is clear that this is not a financial world that helps nurture effective management control at the senior level. There are several reasons for this.

First, senior managers no longer have much direct involvement in the day-to-day activities of the business. Instead, middle managers have become more powerful because they are the ones on the front line, originating, selling and trading the new instruments.

Because of the nature of compensation systems, middle managers tend to focus on the near term, interested in carving out a chunk of the hoped-for gains for personal reward. Paradoxically, senior managers are often paid less than middle management specialists in exotic financial derivatives. To some extent, this fact in itself undermines authority within an organisation.

Middle managers also develop technical prowess and global relationships that give them more independence than in the more structured arrangements of the past. If they are not allowed to do what they do best – or what they think they do best – they can often jump to another institution. In a well-run financial firm, there ought to be a tension between middle managers constantly pressing the top bosses to say yes to the latest proposition and senior managers who look after the long-term health of the institution.

Nowadays, this tension is being weakened. We saw this most vividly in the recent lending by major banks and securities firms to several large hedge funds. The lending arrangements appeared highly profitable. The volume of trading generated was heavy. The middle managers naturally wanted to push ahead, and senior managers could not bring themselves to turn down the business. In the process, the question of risk got short shrift.

Second, the leaders of financial institutions have to recognise and combat the illusion that everything is tradeable. Such enviable conditions are not a permanent phenomenon. In the past, institutions used to buy and hold securities and did not need to mark their holdings to market frequently, if ever. Now, when market conditions turn unfavourable and accustomed liquidity dries up, middle managers often attempt to camouflage the bad marketability by simply marking to market on the basis of indicative prices rather than the lower prices at which genuine transactions can be made. By the time senior managers are aware of the deterioration in market conditions, it is usually too late to do much about losing positions.

Third, the mathematics of the financial business has increased in importance and prestige, notably through the use of quantitative risk analysis. This computer modelling is also the product of middle management.

The ability to build models creates an illusion that there is a scientific basis to the calculation of risk. But the exactitude lies only in the calculation of the formulas. Models will invariably fail to predict the future when there are sudden shifts in the structure of the markets, such as we have seen in the past year.

Therefore, senior managers must question whether to have faith in models that work profitably for a period but will surely be of questionable value when the financial structure on which they were based shifts.

It is senior managers who must be responsible for knowing the history of financial mishaps and applying its lessons. They cannot assume that middle managers have much familiarity with past crises. This means being sceptical about a mentality that asserts "this time is different". Each generation tries to uncover a new paradigm, in which the trade-off between risks and returns is supposedly better. But as we found out in Russia, ignoring history can be disastrous.

Senior managers must also be tough-minded in the deployment of the capital of a firm. They have to take the trouble to determine the true rate of return when a proper adjustment for risk is taken into account. They must go beyond what models say about the measurement of credit risk. They must be especially critical about whether risks are correlated across markets. Some of this can be monitored using past data, but senior managers have to be willing to assume much worse outcomes than are present in the past data.

Finally, just as senior managers have to be willing to disappoint some of their most profitable dealmakers and traders, so the heads of our official financial supervisory and regulatory institutions have to improve their oversight. To avoid credit excesses, we need an official institution that raises the bar for the largest private institutions in terms of risk assessment. This is necessary in order to protect the safety and soundness of the financial system as a whole. Events of recent months clearly indicate that central banks have a responsibility to securitised markets equal to their traditional responsibilities to the banking system.

This carries with it certain broadened supervisory responsibilities. In particular, monetary authorities have to be able to inspect the risk-taking of new types of financial institution that could have significance for the system at large. This is is not possible under their present powers.

For many years, I have proposed a substantial tightening in the system of official supervision of financial markets, on the argument that a more deregulated financial system requires a more uniform and more comprehensive system of oversight. This heightened oversight depends on the adoption of common standards – accounting standards, disclosure standards, trading standards, and underwriting standards that I believe can be effectively achieved only by putting in an official institution with oversight globally.

After the events of the past year, many who formerly were sceptical of such a proposal now accept the need both for better transparency and for uniform standards. However, no supervisory system will work effectively unless the performance of senior management also rises to a level clearly superior to what it has been.

The author is president of Henry Kaufman & Company, Inc.

Nukes and North Korea

Peter Montagnon asks whether easing sanctions could persuade Pyongyang to curtail its nuclear weapons programme

For Bill Taylor of Washington's Centre for Strategic and International Studies there is no doubt at all. The nuclear threat from North Korea, he says, represents the greatest security risk to the US anywhere in the world.

Mr Taylor is not alone in his concern. Masked by the impeachment furore and high profile international issues such as Iraq and Kosovo, a sense of quiet alarm has been gripping Washington for months over North Korea's apparent determination to develop both nuclear weapons and missiles to deliver them.

Until last summer, the US and its allies had gained comfort from a 1994 accord under which North Korea promised to give up its nuclear programme in exchange for the installation of "safe" light water power generators not capable of producing weapons-grade plutonium.

But the accord was thrown into jeopardy last summer by North Korea's missile launch over Japan and subsequent revelations by the US Defence Intelligence Agency that it was developing an underground site that could be used for the production of nuclear weapons.

Since then, the Clinton administration has been struggling to keep the 1994 arrangement alive amid furious accusations from both Congress and North Korea that they have been misled. The latest signs are that the two countries are now edging towards a new agreement. After discussions in Geneva last week, North Korea talked of significant progress. But finding a package which satisfies both Congress and North Korea remains a daunting challenge.

Senior administration officials say they hope to revive the 1994 accord by getting Korea to agree to inspections of nuclear sites and to limit missile development.

The negotiations have been complicated by a demand from North Korea for a $300m payment for a one-off inspection of an underground site near its main nuclear complex at Yongbyon and by the reluctance of the Congress to sanction a $35m appropriation needed to supply heavy fuel oil under the 1994 agreement.

Recently, however, North Korea backed away from the $300m demand. If agreement can be reached on reducing tensions on the Korean peninsula, some easing of sanctions may be possible.

Pressure to reach an agreement has increased after Congress imposed deadlines of March 1 and June 1 respectively for the Clinton administration to certify that Pyongyang is living up to its commitment not to produce nuclear weapons and has curtailed its missile programme.

But the detail will need to be tough to win congressional approval. Douglas Bereuter, the moderate republican who chairs the Asia subcommittee of the House Foreign Affairs Committee, says the missile test is a particular worry since it has shown North Korea could soon be capable of firing missiles at the continental US. That changes the nature of the security debate: it is no longer just about defending South Korea.

A way out of the impasse may be offered in a report commissioned by the administration from William Perry, the former US defence secretary. Mr Perry has been tight-lipped about what he will propose when his report is completed next month, but many expect him to recommend a line closer to that of South Korea's President Kim Dae-jung.

Mr Kim has been pressing the US to ease sanctions, normalise relations with the North and step up food aid. The idea of easing sanctions may be controversial, but Mr Perry commands considerable clout in Congress. If he endorses it, there is a chance it would gain support.

Still, most believe any initial easing of sanctions would have to be modest, confined for example in the first instance to the unfreezing of about $14m of North Korean money held in US banks. It would also have to be part of a broader deal which offered concrete measures to reduce north-south tension such as a reduction of troop presence near the border.

Handled correctly, easing sanctions could be a way of assuaging Pyongyang's paranoia. The idea is that the Kim Jong-il regime might become less dangerous if it felt the outside world was no longer trying to starve it to death. Easing sanctions could also pave the way for South Korean investment and an opening up of the North Korean economy – and even (some hope) an eventual transition from dictatorship.

Against that is the fear that any concessions would simply amount to giving into blackmail. Several experts believe North Korea will eventually launch another missile. "They have a record of seeking crisis for diplomatic leverage," says Patrick Cronin of the US Institute of Peace.

And some admit that North Korea's behaviour has a ghastly logic. Contrary to what most in Congress believe, the 1994 agreement does not provide for inspections until the safe reactors are ready for delivery, says Selig Harrison of the Century Foundation.

North Korea does not trust the US to deliver its side of the bargain which, importantly for a regime worried about its survival, includes the recognition implicit in the normalisation of diplomatic relations. Mr Harrison says the government in Pyongyang is preparing to resume its nuclear programme in case it discovers the US is not serious.

The fundamental flaw with the 1994 agreement, Mr Harrison concludes, is that it appears to have been made on the assumption that the North Korean regime would collapse under the weight of its economic problems before any of the conditions were really tested. The snag for Washington is that the regime is still there.

TO THE EDITOR

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COMMENT & ANALYSIS

FINANCIAL TIMES

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US changes its tune on trade

Since Asia's economic turmoil broke out, the US has unsettled trade partners by coupling pleas *for open markets with* thinly-veiled protectionist threats. Its message, above all to Europe and Japan, has been: share the burden of restoring growth by buying more from emerging economies, or risk precipitating irresistible pressures from the US Congress to restrict imports.

But at the recent World Economic Forum in Davos, the US sang a very different tune. Charlene Barshefsky, its top trade official, pledged to resist domestic protectionism, eschew contentious unilateral trade measures, play by global rules and press ahead with a new world trade liberalisation round.

It is years since other governments have heard this kind of language from Washington. But should they believe it? The US shift appears due partly to the realisation that brandishing protectionist bogeymen is self-defeating. By creating international uncertainty and frictions, it risks undermining efforts to stabilise the global economy.

But the rest of the world will be reassured only if the US acts resolutely on its good intentions. That may not be easy. So far, Bill Clinton has stood firm against demands for import curbs, notably from steel producers. But such demands are unlikely to abate, and may increase if growth falters.

Ms Barshefsky's recent revival of Super-301 authority, which provides for monitoring of other countries' trade practices, is not an encouraging omen. She may rationalise it as a symbolic gesture to pacify aggrieved producer lobbies. But it sends troubling signals to other countries, such as Japan and Korea, for which Super-301 has in the past been synonymous with US trade bullying. *If Washington does not plan* to wield the weapon this way again, why unsheathe it?

To quell such doubts, Mr Clinton needs to make the case for free trade boldly to the nation. In the past, he has relied too much on crude mercantilist arguments. He should instead spell out some basic economic truths. Other countries will buy US exports, on which steadily more jobs depend, only if it enables them to create wealth by freely accepting their imports. Furthermore, low-cost imports are good for the US economy, because they benefit the *competitive performance of far* more producers than are threatened by it.

That may be a hard message to sell. It will be more palatable if other governments also respect it. Europe, in particular, needs to commit itself to freeing farm trade and implementing rigorously World Trade Organisation rulings in trade disputes such as bananas. Continued foot-dragging on such issues would undermine US efforts to shrug off the unilateralism that Europe has been so quick to condemn.

Flexible pensions

The government has retrospectively brought a degree of coherence to what risked being a damagingly fragmented approach to long-term saving. Its new proposals for flexibility in pension investment have taken an important step towards individual equity-based accounts, under savers' direct control.

These are welcome moves. But some of the besetting sins of UK tax policy still linger. For decades, British governments have produced a string of tax wheezes to encourage saving. Each has reflected the pressures – *or the* lobbying – of the moment. Each has been hastily amended or supplemented to correct its inherent weaknesses.

Labour promised voters root-and-branch reform. A new, robust structure would be created, which would encourage saving, protect the poor, and broaden access to tax-advantaged investment vehicles.

But last December, in the pensions green paper, the government missed its opportunity. It appeared to be merely replacing one confusing set of vehicles with another. And while ostensibly favouring sensible retirement provision, it had raised its cost by taxing dividends.

The second criticism still applies. But by creating a single mechanism for tax-advantaged contributions to pooled investment vehicles, yesterday's proposals have at least brought more coherence to the ways in which individuals can save for retirement. And by creating individual accounts, under investors' control, the proposals pierce the veil that has hindered insurance and personal pension savers from appreciating the true value of *their assets*.

This is welcome. But some long-standing problems still apply. There can be no guarantee of the long-term taxable status of these vehicles. By phasing out, rather than building on, such Conservative innovations as Peps and Tessas, *Labour has increased* the likelihood of another sweeping reversal of policy when government next changes hands.

Just as important, ministers still underestimate the marketing drive of financial services institutions. Under the previous government, this led to the personal pensions mis-selling scandal.

Even if such horrors are avoided this time, the very flexibility of the new mechanism will produce many hundreds of superficially different schemes. Individual savers, especially the low and medium-earners the government is targeting, will still be left confused. Inertia, the biggest enemy of timely saving, will be reinforced. Above all, the government's hopes of a pension product so simple that purchasers will not need advice is unlikely to be realised.

Commodities

The World Bank's first Global Commodity Markets report makes depressing reading for commodity exporters. Prices are likely to remain depressed in the long term. This will contribute to lower world inflation. But it will also make development more difficult for many of the world's poorest countries, and the case for development assistance correspondingly stronger.

The dollar prices of many commodities, including oil, have declined by more than 50 per cent since 1985. The Asian financial crisis has contributed to the downturn in prices, by reducing demand for imports and increasing Asian commodity exports.

However, longer-term structural factors are also at work. Technological advances have reduced costs and increased commodity output. Greater privatisation and liberalisation of markets have also created incentives to produce more. Argentine exports, for example, have leapt. At the same time the relative demand for industrial inputs into manufacturing has fallen. The World Bank predicts "a fundamental break in the level of commodity prices", forecasting that, in real terms, prices will be lower in 2010 than they were in 1997.

The rapid growth and industrialisation of the postwar years and oil shocks of the 1970s raised commodity prices and redistributed income from industrial countries to developing country commodity exporters. This shift in the terms of trade against industrial countries also contributed to the galloping global inflation of the 1970s.

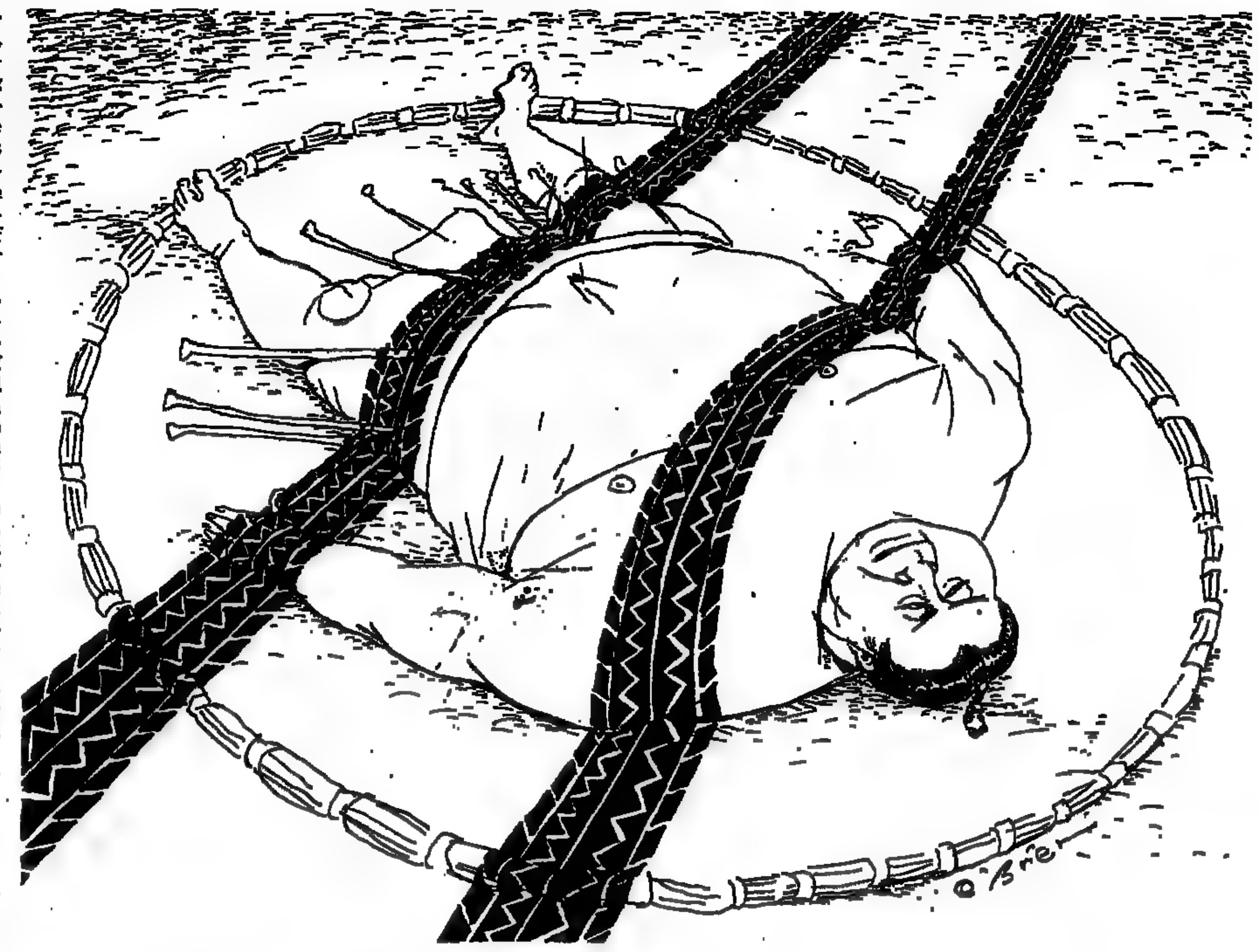
The declining commodity prices of today reverse these effects. They reduce inflationary pressures in rich countries. They also make developing country commodity exporters poorer: the oil exporters of the Middle East will suffer, as will the commodity exporters of Latin America.

Yet it is Sub-Saharan Africa, where commodities account for 75 per cent of export revenues, that will suffer most. Most developed countries started off as commodity exporters, diversified within commodities, then moved on to manufactured goods – and, later still, to services. This is the normal path of economic development. Their own foolish protectionism is one reason why many African countries have failed to diversify, either within or out of commodities. But the challenge of diversification will now be still more difficult. Poor countries may have to jump straight to manufacturing.

Rich countries, which benefit from the improved terms of trade, ought to help. Forgiving the debts of highly indebted, but reforming poor countries – many of which were encouraged to borrow against future commodity revenues – is the place to start.

Making tracks for Japan

... The alliance between Goodyear and Sumitomo Rubber is the latest in a number of foreign acquisitions of Japanese companies. **Our Tokyo bureau** examines the significance of the trend



Since Japan's bubble economy burst a decade ago, *gaijin* investment bankers have been forecasting a stampede of foreign acquisitions. Finally they seem to have struck pay-dirt. A series of deals – like Goodyear's effective takeover of Sumitomo Rubber, the country's third-biggest tire company – indicate big chunks of Japan Inc may finally be up for sale.

If the current pace of transactions is sustained, the implications could be far-reaching. Foreign ownership of some of Japan's biggest financial and industrial groups could lead to a revolution in the way Japanese companies are run, marking a shift towards a more shareholder-driven management style.

The potential rewards are huge, but so are the risks. Acquiring assets in Japan and then managing them profitably may be more challenging than many foreigners realise; and there is a possibility that a number of failed deals could bring the flow of transactions to a halt.

For the moment, though, the *gaijin* are euphoric. The number and size of deals have broken records over the past 18 months, and the pace appears to be accelerating.

In financial services, Merrill Lynch has swooped on the branch network of the failed Yamaichi Securities. GE Capital has acquired the leasing operations of Japan Leasing, the country's second biggest company in the sector; this gives it access to 70,000 Japanese corporate clients. Travelers is in the process of buying up to 25 per cent of Nikko Securities, the third-biggest Japanese broker.

Activity has been less frenetic in the industrial sector, but it is beginning to pick up. DaimlerChrysler is negotiating to acquire Nissan Diesel, the truck maker. Executives at Nissan, the country's second-biggest car manufacturer, say they are willing to sell up to 50 per cent of the company. Toshiba, the electronics conglomerate, says up to a third of its businesses could be sold, put into joint ventures or restructured.

The trigger for all this activity is not a sudden surge of interest from abroad: many foreign companies, unable to break into the Japanese market by exporting, have been long anxious to compensate by acquiring a local company instead.

Rather, the immediate reason for the flurry of deals is the sudden increase in Japanese companies which have put themselves up for sale.

In part this is corporate Japan's response to the big mergers of Daimler and Chrysler, Sandoz and Ciba, Mobil and Exxon, Amoco and BP, which have left Japanese companies looking parochial and underscale.

"Certain industries are becoming global. Full stop. And some Japanese executives have realised that," explains Vittorio Volpi, managing director of Warburg Dillon Read in Japan. "Yesterday's deal in the tyre industry was emblematic. The products are basically the same the world over, and there are economies of scale in research and development, marketing and manufacture. To survive they must participate."

Japanese executives are also facing domestic problems. Japan's companies are suffering the longest recession since the postwar recovery, a downturn which has depressed sales, prices and profits. The plight of some sectors, such as telecoms, oil and financial services, has been exacerbated by deregulation. In oil, for example, the Japanese government's decision to allow more companies to import oil, and to lift restrictions on self-service petrol stations, has caused retail petrol prices to collapse, severely denting the sector's profitability.

But globalisation and recession would not, on their own, have been enough to persuade Japanese companies to accept foreign ownership. It is an acute shortage of capital that is driving them into the arms of the *gaijin*.

"The whole story is financial," argues Toru Mio, vice-president of investment banking at Salomon Smith Barney in Tokyo. "Many companies have huge debts, negative cash flow, are *unable to issue* new equity, cannot access the bond market and are confronted by main banks unwilling to lend more money. There is no more easy capital in Japan. They have no choice to turn to foreigners."

This shortage of capital is *transforming attitudes to foreign* ownership.

Only three years ago, the Japanese business community shuddered when Ford of the US decided to increase its stake in Mazda, the carmaker, to 33 per cent. But when the president of Nissan said last month that he would be willing to sell up to 50 per cent of his company to a foreigner, his remarks barely raised an eyebrow. Five years ago aligning with a non-Japanese company was viewed as a prelude to disaster. Today, foreigners are accepted as sources of expertise, technology, products and, most of all, capital.

This new acceptance of the outside world has been encouraged by the powerful bureaucrats at the ministry of finance and ministry of international trade and industry. Miti officials are now prepared to admit that inefficient companies will fail, and that foreign ownership is desirable. In Japanese policy terms, this amounts to a revolution.

Many believe the forces at work will inevitably lead to a wholesale rationalisation of Japanese industry and services. "It's like an opera when it ends, one person gets up and claps and the next person gets up and claps and once the third person is clapping, everyone starts to clap. We're just at the third person clapping in most of Japan," said a broker close to Goodyear deal.

"This must be the year when Japan restructures," agrees Masanori Mochida, managing director of investment banking at Goldman Sachs in Japan. "Without restructuring the Japanese economy will continue to suffer."

Nevertheless, big barriers to foreign mergers and acquisitions remain.

First, the Japanese system of cross-shareholdings prevents hostile takeovers. Analysts estimate these holdings are equivalent to about 65 per cent of the market capitalisation of big companies. Second, there is a mismatch of buyers and sellers. In the troubled retail sector, there are plenty of sellers, but no buyers. In pharmaceuticals, there is much outside interest but nothing up for sale.

Third, the lack of transparency in Japanese accounting means that due diligence is a nightmare. Valuing liabilities, bankers say, is more an art than a science. "You can have guarantees to suppliers and distributors that aren't recorded and subsidiaries that are s***," complains Mr Volpi at Warburg Dillon Read in Japan.

'Japanese managers have unrealistic expectations of who is going to run the company'

To avoid buying a pig in a poke, advisers are trying to ring-fence their deals from possible bad debts and unforeseen liabilities. When GE Capital concluded its deal with Toho Mutual, the life insurer, the transaction gave the American company access to new life assurance business, but did not make it liable for Toho's previously issued policies.

Another barrier is management control. "Many Japanese managers have unrealistic expectations of who is going to run the company after the deal is done. People who realise they are in difficulties are less arrogant and *more realistic. But there are still* people out there who are deluding themselves," says Mr Volpi.

The problems with valuation and management control are not easily resolved and can represent significant stumbling blocks. The Goodyear-Sumitomo deal was *only concluded* after two years of contentious negotiations. Nissan Motor and DaimlerChrysler have been negotiating over Nissan Diesel for more than a year, with no resolution in sight.

The final hurdle is trying to run Japanese companies successfully. It is not easy for foreign companies to implement cuts in Japan's overmanned companies. Nor is it easy to manage very different corporate cultures.

Virtually every recent acquisition in the financial sector has run into problems. The start of the Nikko-Travelers joint venture has been delayed for at least two months because of logistical problems. Already, insiders have published a bestselling book predicting the venture's collapse.

"The mood is very difficult. There is a lot of in-fighting in every area," admits one Nikko official. Similarly, Merrill Lynch's recently acquired Yamaichi branch network is struggling. Sales have been disappointing, and there has been some consternation among branch managers who have been required to read instructions from head office in English, irrespective of nationality.

Nevertheless, in spite of the difficulties, most investment bankers are bullish about foreign mergers and acquisitions in Japan. Mr Mio at Salomon Smith Barney forecasts an explosion of deals in 12 to 18 months.

"Over the next two years, regulatory changes mean that companies will have to report on a consolidated basis. They will be unable to hide badly performing assets in non-consolidated subsidiaries. *A lot of bad debts* are going to emerge. That will force rationalisation," Mr Mio says.

So will the unwinding of cross-shareholdings. The old *keiretsu* business grouping system is breaking down, says Mr Volpi. "The Fuyo *keiretsu* let Yamaichi fail, and in the Mitsui *keiretsu* Toyota refused to provide money to Sakura Bank. That's not to say the *keiretsu* system will end, but it will be reduced to core members. The shares of non-core members will be sold and that will lead to more M&A," he insists.

Change in Japan has often come about as a result of foreign pressure. In 1854, the "black ships" of Commodore Perry steamed into Suraga Bay and forced Japan to open up to the outside world. Now could be the moment for foreigners to open up Japan's inward-looking businesses – this time as corporate white knights.

Reporting by Paul Abrahams, Alexandra Harney, Alexandra Nusbaum and Gillian Tett

OBSERVER

Cold war in Winnipeg

Winnipeg isn't the easiest place to find. Nor, in the winter when temperatures in the Canadian prairie town average minus 24°C, would you necessarily want to find it. But that hasn't deterred Ikea and Volkswagen.

The two European giants, jealous of their names and reputation, have descended on the place, demanding that a couple of small shops cough up a share of their profits for allegedly violating trademark registrations.

Ikea was irked by television and radio ads run by Studio Furnishings, a local retailer that bills itself as "Winnipeg's answer to Ikea". While the Swedish furniture company has no outlet in Winnipeg, it objected to the comparison.

So a harshly worded letter from the company's Canadian lawyers warned the owners to stop running the adverts, told them to hand over all promotional material bearing the Ikea name and to "provide an accounting of all profits arising from your use of the Ikea trade marks".

Manager Manny Ferreira is suitably intimidated. He thinks Ikea's reaction is a bit over the top but he's not eager for a fight. "These guys are pretty big. They'd eat me up six ways from Sunday."

Meanwhile, Volkswagen felt under threat from a store that promises a little excitement on those cold Winnipeg nights. Love It Up, selling womens' lingerie and sex aids, posted the slogan "Lovers Wanted" outside its shop, with the "L" and "W" intertwined to resemble the Volkswagen logo. The Germans are not amused. While the shop *has agreed to drop the logo, it's* sticking to the slogan. Volkswagen is still threatening a lawsuit. Whatever happened to a little sensible discretion?

Net loss

French Internet users reckon they've got some clout. Hence the one-day strike they've just staged as part of a campaign to reduce the cost of surfing the web.

Organised by a group calling itself the Association of *Discontented Internet Users, it* claims their second day of action was supported by as many as 350,000 net users – depriving France Telecom of significant amounts of telephone and internet revenue. The group is asking the former state telecoms *carrier to introduce a flat rate for* web surfers, rather than the current mix of subscription and hourly rates.

Among its complaints are problems in getting connected, constant disconnections, high costs and poor service. And *what's more, the group's not* going away until its grievances are taken seriously and acted upon. So it's staying online to take complaints – which should be music to France Telecom's ears.

Sacking bankers

Jean-Claude Trichet droned on about the blessed euro a bit *longer than necessary at a* bankers' banquet in London this week. But financiers still found themselves drinking his health.

Because wittingly or not, the wily Bank of France governor secured a last-minute reprieve for the ancient tradition of passing *round the loving cup on such* distinguished occasions. Despite attempts by various Lord Mayors of London to dump the ceremonial, rank and file members of the Bankers Club have remained deeply attached to the silver urn. It's filled with *sack – generously described as* spiced wine but redolent of battery acid and old sticking plaster.

As important as the contents is the attendant choreography. This involves taking off the lid and guarding your neighbour's back while they drink. *But even the* bankers had decided to ditch the loving cup this year – before Bank of England governor Eddie George announced he'd secured Trichet's services as the guest speaker. The *Gouverneur*, he indicated, was especially looking *forward to sampling the City's* ancient rituals. The cup had to survive for another year.

Cynics reckon George had caught wind of the committee's treasonous plans and invoked Trichet's name to help spike its guns. If the bankers want a more lively speech next year, perhaps they should spike the drink.

Pin money

Pin Chakkapak, the man who as head of Thailand's largest finance company in 1997 put the word "finance" into the country's financial crisis, may soon give a new meaning to the term management buy-out.

Pin has been charged by Thai police with fraudulent dealings but is said to have been living freely in the US. Now he's offered to turn himself in, prompted, the police say, by their requests to US authorities to arrest the man once known in *Thailand as the "Takeover King"*.

But the surrender offer came with an interesting condition. Pin, who would be immediately freed on bail of $540,000 and likely to remain free – none of the hundreds of former executives charged with economic crimes in *the 18 months since the crisis* has ever been jailed – wants the government to accept "compensation" of $81m for his alleged misdeeds.

Not to cut a deal, mind you, but to show some sort of forgiveness. On whose part, it *remains unclear*.

The Financial Times

100 years ago

The Yankee Boom
All records of volumes of transactions in the history of the New York Stock Exchange were broken yesterday. In the five hours of business the reported sales of stocks were 1,538,460 shares, which leaves far in the shade 11th February, 1892, when sales were 1,449,334 shares. In addition nearly $9,000,000 par value of Railway bonds were sold yesterday. Brokers on the floor had not a minute's rest. The tickers were overworked, and sales representing in the aggregate many thousands of shares were undoubtedly missed by the official reporters. As it was, the ticker record was anything from ten to fifteen minutes behind the actual market.

50 years ago

Mr. Truman And Africa
President Truman's recent statement foreshadowing American assistance for the development of backward areas has made the whole world opinion thoroughly Africa-conscious. Although the "dark continent" was not specifically mentioned, it must obviously have been foremost in President Truman's mind as a backward area with immense possibilities.

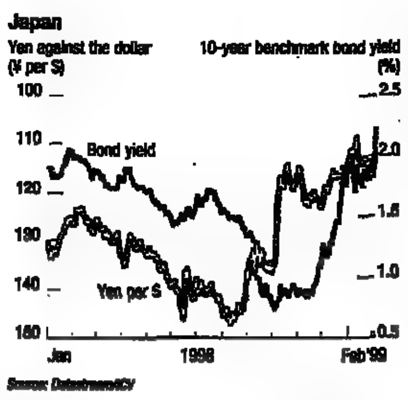
FINANCIAL TIMES
THURSDAY FEBRUARY 4 1999

THE LEX COLUMN

Yen for yield

Here is a puzzle. In a week when Japanese government bonds have plunged, the yen has risen sharply. What is strange about that, one might ask? After all, bond yields have gone up and that should make yen assets a more attractive investment. That, at any rate, is the popular explanation for what has happened. But it does not really stack up. If the bond market had already stabilised, maybe it would. But while Japanese bond prices are still falling, it is not credible that Japanese are repatriating funds and buying bonds. If they were, bond prices would be rising. More likely, funds are being repatriated for other reasons – say to flatter balance sheets for the March year-end – and the money is staying in bank accounts.

If so, the yen is being driven more by liquidity than fundamentals. The longer-term outlook will then depend on whether the government prints money both to reflate the economy and fill the black hole in its finances. If not, the need to borrow on such a vast scale will drive bond yields still higher and the yen could stay strong. But precisely because such a cocktail would be so bad for the economy, it is more likely the government will eventually choose monetisation. That, indeed, is what the prime minister's advisers have been indicating. Under this scenario, the yen could plummet. Not that this would be much cheer for bonds. Yields would still rise, this time on fears of inflation.



Source: Datastream/ICV

US budget

According to this week's budget, the US is entering a period of fiscal bliss, with a projected cumulative budget surplus of $2,400bn over the next decade, rising to nearly $4,500bn over 15 years. But while the politicians are already wrangling over how to spend the money, it is worth asking whether these huge sums will actually materialise.

Reassuringly, the underlying assumptions used by the White House are fairly conservative. It expects economic growth to slow to 2 per cent for 1999-2001, followed by a reversion to trend growth of 2.4 per cent thereafter. Inflation is estimated to average 2 per cent, in line with private sector forecasts, while unemployment is seen as rising from 4.3 per cent to 5.3 per cent by 2002.

Nevertheless, this "soft landing" scenario could be blown out of the water by a recession. Just as worryingly, the forecasts assume that government spending will remain under the same tight control as in an era of deficits. They also assume that tax receipts will continue to rise faster than gross domestic product as they have done for the past five years. But that was partly due to outsize capital gains from the stock market, which do not look sustainable.

The most likely outcome, then, is a still sizeable surplus, part of which will be used to redeem outstanding Treasuries, benefiting the bond market. But President Bill Clinton and the Republicans are probably fighting over a much smaller pie than they imagine.

Fiat/Volvo

The war of words is hotting up between Stockholm and Turin. Volvo wants shareholders to back its strategy of selling the car division to Ford. Fiat is blowing its horn, demanding a chance to negotiate a bid for the whole of the Swedish group. So far, Fiat seems to be getting the better of the exchange.

Nervous about straining relations with investors ahead of the Ford vote, Volvo is toning down talk about a costly bid for truckmaking rival Scania. Yesterday, it tried to rebuff its Latin admirer by valuing itself at SKr160bn (€18bn, $20.5bn) – far more than the SKr110bn Fiat has offered.

Looked at on a break-up basis, Volvo's sticker price seems too high. Ford has priced the car operation at SKr50bn. To reach Volvo's target, the rump would have to be valued at SKr100bn, or 12 times this year's earnings before interest, tax, depreciation and amortisation (ebitda). This is a third more than the multiple expected for Scania, generally felt to be a more desirable asset.

Assuming Fiat sweetened its offer to SKr125bn, Volvo would find it hard to resist. But could Fiat afford it? Much depends on Swedish willingness to take its paper, which could be half the consideration. To justify the racy price – about seven times 1999 ebitda – Fiat would have to find annual savings of between SKr4bn and SKr5bn. This does not look impossible. It is time for Paolo Fresco, Fiat chairman, to put up or shut up.

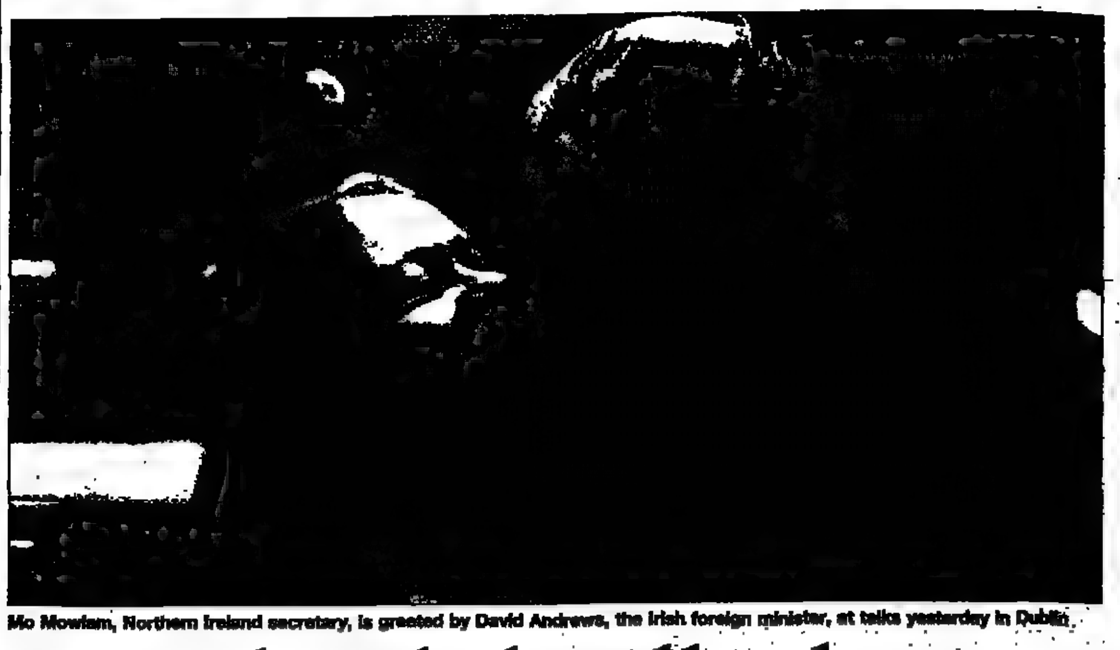
Break fees

The numbers sound enormous: $1bn in some mega-deals involving US companies. Of course, these "break fees" are not incurred if a deal goes ahead as planned. But what purpose do they serve? The bidder will surely only go for a business it really wants to buy, so a sniff of compensation if it fails should not influence it. From the target's point of view, why put up shareholders' money in a way that might deter a rival bid, or at least divert some of the auction proceeds?

Such reasoning makes investors suspicious of break-up fees, but it would be a mistake to oppose them as a matter of principle. In some cases they may oil the wheels. Take TRW's £4bn ($6.5bn) bid for LucasVarity. The US bidder came in with an all-cash bid worth more than rival Federal-Mogul was apparently prepared to offer in cash and shares. TRW negotiated a £30m break-up fee. It is conceivable that this helped get the bidding started, which should outweigh any irritation felt by LVA shareholders.

The simple test is that any break fee should encourage a transaction and drive up the price. The big question then is how big it should be? TRW's is less than 1 per cent of the target's price, representing only a small proportion of a potential counter bid. But at 2-3 per cent of the target's value, a break-up fee not only provides a stiffer hurdle but may also lose touch with the costs incurred – surely a reasonable basis for any compensation.

SOOTHING WORDS MASK A CRISIS IN NEGOTIATIONS, WRITES JOHN MURRAY BROWN


Mo Mowlam, Northern Ireland secretary, is greeted by David Andrews, the Irish foreign minister, at talks yesterday in Dublin

N Ireland deadlock puts peace talks in jeopardy

Soothing messages about the Northern Ireland peace process gushed from the British government yesterday. "We have made enormous progress," Tony Blair, the prime minister, said in the House of Commons as he rejected appeals to halt releases of terrorist prisoners until weapons are surrendered. Mo Mowlam, Northern Ireland secretary, said the continuing punishment attacks (beatings and mutilations of people paramilitary groups believe have offended their codes of conduct) did not amount to a breach of paramilitary ceasefires.

But behind the reassuring talk, there is growing concern that the continuing deadlock could destroy the delicate negotiations.

Prospects for setting up the planned power-sharing administration by the agreed date of March 10 appear bleak, with the pro-British Ulster Unionist party insisting that the Irish Republican Army starts disarming before Sinn Féin, its political wing, can take its seats.

A dangerous game of political brinkmanship is being played against a background of heightened community tensions. David Trimble, first minister in the new administration and leader of the Ulster Unionists, has talked about "parking" the peace agreement, putting the institutions created through it on hold until the IRA moves on weapons.

The deadlock illustrates continuing lack of trust between old enemies. One Trimble adviser compared the party's approach to republican paramilitary groups to that of the US in disarmament talks with the Soviet Union. "With such a secret organisation, it is no good trying to guess their intentions. All you can do is concentrate on their capacity to use violence."

According to Arthur Aughey, politics professor at the University of Ulster, the deadlock underlines "very different views of what the last 30 years have been all about". Unionists feel democratic rules have been cast aside to ease the rehabilitation of men of violence. For republicans the violence was legitimate, and so its resolution should not involve one side having to assume more blame than the other.

British officials are understood to have put forward yesterday a number of proposals to provide the protagonists with negotiating space. One idea is for the IRA to indicate willingness to start decommissioning weapons at a specified date. That at least would put pressure on Mr Trimble to respond.

But observers say such an initiative would be too late. Attitudes among members of Mr Trimble's party, the largest pro-British party in Northern Ireland, have noticeably hardened as a succession of IRA prisoners has been released. Public statements by the IRA have, if anything, become more belligerent. Moreover, the Sinn Féin leadership has seemed oblivious to public disgust at republican punishment attacks.

For many republicans, even an oral statement of intent would be too much. They say the agreement does not make decommissioning an explicit condition for participation in government, although even Irish officials say it obliges the IRA to make a gesture of intent. Prisoner releases, Sinn Féin says, are not a concession to republicans because anti-republican "loyalist" convicts also benefit.

Written pledges by Mr Blair in an attempt to secure unionist backing for the referendum that followed the agreement indicated parties would not be allowed into the administration if their paramilitary associates had not renounced violence. Such statements are being invoked by unionists to justify demands for IRA decommissioning before Sinn Féin joins the administration.

Given the increased community tensions – with attacks on Protestant halls this week and the firebombing of Catholic homes – the best the British and Irish governments can hope for is somehow to maintain momentum. Otherwise the political wrangle could spill out on to the streets.

Move on beatings, Page 7

CONTENTS

Goodyear chairman Samir Gibara (left) and Sumitomo president Naoto Saito in New York to announce a strategic alliance. Page 13 Reuters

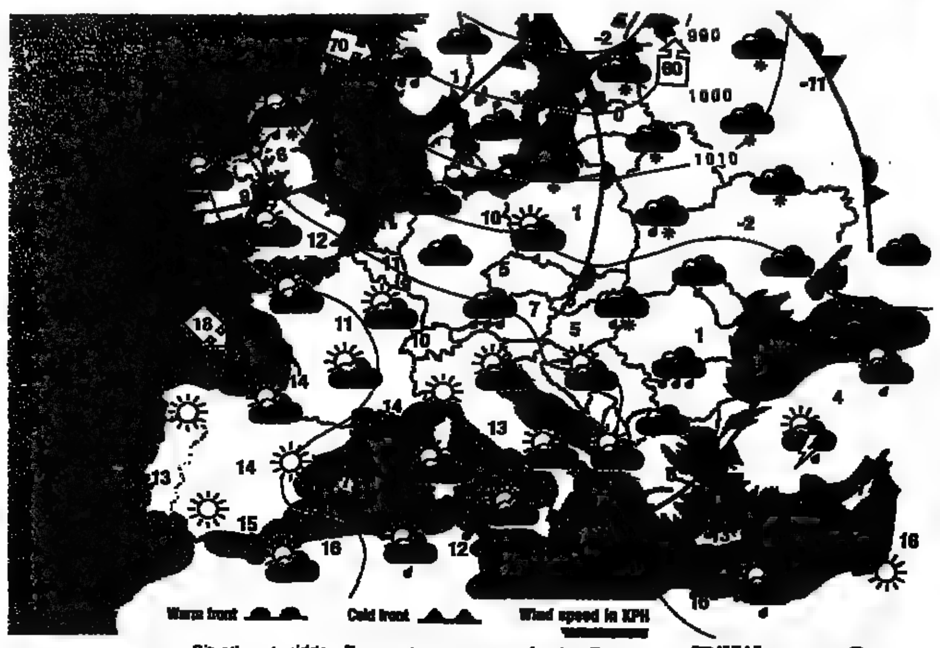
FT WEATHER GUIDE

Europe today

The Iberian Peninsula, France, much of Italy and the coastal Balkans will be mild with sunny spells, although low-lying parts of northern Italy will have fog. Most of Greece and Cyprus will have showers. The Low Countries, Germany, the Alps and the northern Balkans can expect mild but cloudy weather with showers. The southern fringes of Norway, southern Sweden and Denmark will be mild and windy at first with rain, but colder air will arrive by evening. The rest of Scandinavia and north-east Europe will be cold.

Five-day forecast

The Iberian Peninsula, France and Italy will be mild with sunny spells, although northern Italy will have fog. Greece and Cyprus will have showers. The Low Countries, Germany and the Alps can expect mild but cloudy weather with showers. Southern Scandinavia will start mild but turn much colder by evening.



Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Sun	24
Accra	Fair	32
Algiers	Fair	16
Amsterdam	Cloudy	11
Athens	Shower	8
Atlanta	Sun	16
B. Aires	Fair	26
B'ham	Cloudy	11
Bangkok	Fair	33
Barcelona	Sun	15
Beijing	Sun	4
Belfast	Cloudy	7
Belgrade	Cloudy	7
Berlin	Shower	10
Bermuda	Fair	21
Bogota	Cloudy	20
Bombay	Sun	29
Brussels	Fair	11
Budapest	Rain	6
C'hagen	Rain	6
Cairo	Fair	19
Caracas	Fair	29
Cardiff	Fair	11
Casablanca	Sun	16
Chicago	Sun	2
Cologne	Drzzl	12
Dakar	Fair	24
Dallas	Sun	21
Delhi	Fair	21
Dubai	Fair	24
Dublin	Cloudy	9
Dubrovnik	Fair	12
Edinburgh	Shower	7
Faro	Sun	15
Frankfurt	Drzzl	11
Geneva	Fair	10
Gibraltar	Fair	16
Glasgow	Shower	6
Hamburg	Rain	10
Helsinki	Snow	-2
Hong Kong	Sun	19
Honolulu	Fair	27
Istanbul	Rain	4
Jakarta	Cloudy	31
Jersey	Fair	11
Johannesburg	Thunder	24
Karachi	Sun	26
Kuwait	Fair	25
L. Angeles	Sun	18
Las Palmas	Sun	19
Lima	Cloudy	27
Lisbon	Sun	13
London	Fair	12
Luxbourg	Cloudy	9
Lyon	Cloudy	9
Madeira	Fair	18
Madrid	Sun	14
Majorca	Fair	17
Malta	Fair	14
Manchester	Drzzl	10
Manila	Fair	31
Melbourne	Shower	34
Mexico City	Fair	23
Miami	Shower	22
Milan	Fair	12
Montreal	Snow	3
Moscow	Fair	-11
Munich	Rain	8
Nairobi	Fair	29
Naples	Fair	13
Nassau	Sun	25
New York	Shower	9
Nice	Sun	15
Nicosia	Fair	17
Oslo	Shower	1
Paris	Cloudy	11
Perth	Sun	29
Prague	Rain	5
Rangoon	Fair	35
Reykjavik	Snow	1
Rio	Fair	30
Rome	Fair	13
S. Frsco	Fair	13
Seoul	Sun	4
Singapore	Shower	31
Stockholm	Shower	4
Strasbourg	Cloudy	9
Sydney	Shower	25
Tangier	Sun	15
Tel Aviv	Cloudy	16
Tokyo	Sun	14
Toronto	Shower	7
Vancouver	Shower	7
Venice	Fair	8
Vienna	Rain	7
Warsaw	Shower	1
Washington	Shower	12
Wellington	Sun	15
Winnipeg	Shower	-9
Zurich	Cloudy	7

FINANCIAL TIMES
COMPANIES & MARKETS
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THURSDAY FEBRUARY 4 1999
Week 5

INSIDE

AOL in credit card advertising deal
America Online, the US internet group, has signed an advertising deal, worth about $500m over five years, with FirstUSA. It is a vote of confidence in the new medium by FirstUSA, the country's largest credit card lender. **Page 14**

New bank chief fails to lift stocks

Both the Real and bonds reacted well to the appointment of Arminio Fraga (left) as Brazil's central bank president, replacing Francisco Lopes after only three weeks. But equities remain in the doldrums. São Paulo's Bovespa index dipped 1.8 per cent on Tuesday, the day the appointment was announced. Sentiment is dented by continuing public debt and high interest rate woes. **Emerging Market Focus, Page 34**

SingTel engages in defensive moves
Singapore Telecom will have to work hard if it wants to live up to the daring image of itself painted in its current advertising drive. Behind the scenes it is on the defensive as a falling market share is taking its toll. **Page 17**

US fund managers lead Europeans
Four of the five top fund managers in Europe are US groups, according to the latest Reuters survey of European larger companies. The survey also said European equity markets need reforming to stop companies moving to "more efficient" markets. **Capital Markets, Page 22**

Sage to acquire Peachtree for $145m
Sage, the UK accountancy software group, is to acquire Peachtree, an Atlanta-based software company, for about $145m. **Page 19**

Banks urged to sell gold reserves
At the Africa mining conference in Cape Town, central banks were urged to sell off most of their gold reserves so that they cease to pose a threat to the gold price. **Commodities, Page 24**

Japanese keen though wary on euro

Although Japanese institutional investors have quickly gained interest in the euro, the question is whether this surge will translate into real investment in the currency. For while money flows have been striking, Japanese traders are still underweight in euros when compared with dollars. **Business and the euro, Page 21**

LME outlines plan for silver contract
The London Metal Exchange's new silver contract will complement rather than compete with existing contracts, and will be launched by mid-year at the latest. **Commodities, Page 24**

COMPANIES IN THIS ISSUE

CROSSWORD, Page 24

MARKET STATISTICS

Aeroflot set for management purge

Berezovsky to be sidelined in Russian airline shake-up

By Andrew Jack in Moscow

The board of Aeroflot, the Russian airline, is poised to launch a wide-ranging management restructuring today that would sideline the influential business "oligarch" Boris Berezovsky.

The group's management committee is to be pared down from 20 to 15 members, and the directors are discussing cutting their link with Andava, a Geneva-based company believed to be linked to Mr Berezovsky, which handles its foreign earnings.

Officially, Aeroflot said the changes were designed to make its operations more transparent in response to shareholder criticism. It said the board would approve a commercial plan for the next two years, during which period the Russian state may sell part of its remaining 51 per cent stake.

However, the action was seen by observers inside and outside the company yesterday as a sign of growing tensions between those linked to Valery Okulov, the managing director of Aeroflot, who is President Boris Yeltsin's son-in-law, and supporters of Mr Berezovsky, whose significant political influence and close connections to Mr Yeltsin appear to be on the wane.

Steve Thomson, aviation analyst at UFG in Moscow, said: "Aeroflot has been extremely fragmented and there has obviously been an internecine battle. But the company has enormous potential and it would be a positive thing if it comes under unified management."

Both Aeroflot and Mr Berezovsky have always attempted to play down the extent of their mutual relations. But the businessman, whose interests run from the oil company Sibneft to ORT, the television broadcaster, is widely believed to exert a considerable influence through associates and executives within the company.

Several of those close to him have recently left Aeroflot, but among those remaining who are exposed is Nikolai Glushkov, who resigned to rejoin LogoVAZ, Mr Berezovsky's principal business vehicle, as a top executive but who remains on the airline's board.

The company said yesterday it had suspended with immediate effect two senior executives connected to the oligarch in response to alleged problems in their department identified by its internal auditors. One of the two, Alexander Krasnenker, the director of commercial operations, was previously Mr Berezovsky's deputy at LogoVAZ.

Contacted yesterday evening, Mr Berezovsky said he had heard that there was a "misunderstanding" between Mr Okulov and other managers. However, he insisted he had no connections either to Aeroflot or to Andava.

"I don't own a single share. There are so many discussions about my name, people have the impression that I own all of Russia."

Corruption epidemic, Page 2

SocGen chief defends Paribas merger

By George Graham and Clay Harris in London

Daniel Bouton, chief executive of Société Générale, yesterday defended the French bank's choice of Paribas as a merger partner and said the combined SG Paribas would be "built for growth" in the European financial services market.

Investment bankers and equity analysts have said a merger between SG and Banque Nationale de Paris, its main French banking rival, would have offered more scope for cost-cutting and produced a stronger bank.

But Mr Bouton said the combination would have been "a Franco-French solution" and would have destroyed shareholder value.

"The trouble with a BNP deal is that the two organisations have run exactly the same story for years. You have exactly the same pattern of talents and exactly the same pattern of weaknesses."

Mr Bouton and André Lévy-Lang, his counterpart at Paribas, held tentative discussions two years ago, but detailed talks on the €15bn ($17.10bn) deal unveiled on Monday were revived only recently.

The two men said the launch of the euro last month had made a merger a matter of strategic urgency. However, detailed preparations for the new currency meant a merger could not have been undertaken sooner.

The year 2000 is expected to pose less of a problem, although the merger will alter some IT priorities. In cases where one bank is working on a millennium-related project, it might cancel it in favour of adopting its partner's millennium-compliant system.

Paribas is viewed as an investment bank and benefits of the merger are expected to flow from combining its bond businesses with SG's equities and derivatives operations.

Once the merger is completed, creating a group with a market capitalisation of more than €30bn, Mr Lévy-Lang and Mr Bouton expect to pursue a range of partnerships and joint ventures across Europe in retail finance, investment banking and asset management.

Bouton interview, Page 16

Goodyear to shut US plant after Sumitomo alliance

By John Griffiths in New York

Goodyear, the US tyre maker, yesterday launched a big cost-cutting drive as it confirmed it had entered a strategic alliance with Sumitomo Rubber Industries of Japan to create the world's biggest tyre manufacturer.

Goodyear is to close one of its largest plants, at Gadsden, Alabama, as part of a major rationalisation of its operating activities aimed at cutting costs by up to $150m a year.

Plants in Asia and Latin America, regions hit badly by financial and economic crises, also face cuts. Up to 2,800 jobs out of Goodyear's 97,000 global workforce will be lost.

The measures were announced hours after Goodyear and Sumitomo, Japan's second largest tyre maker, signed a letter of intent sealing their alliance.

Goodyear also announced a steep rise in net income last year, despite the problems all major tyre makers face in some of the world's larger emerging markets, notably Brazil.

At $682.3m, or $4.31 per share, net income was 22 per cent up on 1997's $558.7m, or $3.53 per share. The figures were achieved despite a 3.4 per cent drop in sales, to $12.6bn from $13.1bn.

On Wall Street, Goodyear shares were 3.5 per cent higher in early trading, rising $1¾ to $52.

Goodyear executives declined to give details of which Asian and Latin American plants might be affected and made no mention of the company's European operations.

However these are also almost certain to undergo some rationalisation as a result of the alliance with Sumitomo.

Sumitomo has eight plants in Europe and Goodyear six. The two companies' manufacturing operations, distribution and product lines will face substantial change as the partners seek the $360m a year cost savings which Samir Gibara, Goodyear chairman, said yesterday should form part of the benefits of the alliance.

Under the agreement signed by Mr Gibara and Naoto Saito, president of Sumitomo Rubber Industries, a final agreement setting up the alliance should be signed by the beginning of May.

The six joint ventures to be set up as the core of the collaboration are scheduled to become operational at the beginning of September.

The two sides confirmed that they would form four operating joint ventures, one in North America, one in Europe and two in Japan, with two further ventures responsible for global purchasing and shared tyre technology.

All except the Japanese operating ventures will be under Goodyear's majority control. They also confirmed that Goodyear would pay Sumitomo $936m in cash as part of the deal.

Finally, Goodyear is taking a 10 per cent strategic stake in Sumitomo, which has a market capitalisation of around $1bn, while Sumitomo is taking a cross-holding of equivalent cash value, representing a holding of just over one per cent in Goodyear.

Making tracks for Japan, Page 11
Europe stands by, Page 18

Volatile exchange rates usher in age of the currency analysts

Established US sector begins to make inroads in Europe, writes Alan Beattie

Recent exchange rate volatility – not least between the dollar and the yen – has hit at a time when many investors such as pension funds are building up their holdings of overseas assets. One spin-off is fast-growing demand for currency analysis.

The wild swings in currencies over the past couple of years have also increased interest in the subject among those already invested overseas.

After many years as the junior partners to bond and equity research, currency analysis may finally be coming of age. A new respect for the discipline, already established in the US, is now making inroads into Europe.

Pareto Partners, one of the front-runners in the sector, says it has seen rising interest in its work in Europe over the past three years.

"This is particularly true in countries like the Netherlands, where large funded pension schemes are looking to increase their holdings of foreign assets after going through strategic asset allocation processes," says Alex Over, Pareto's assistant director of marketing. He adds that the proportion of non-European assets held by many European funds is up to 25 per cent and rising.

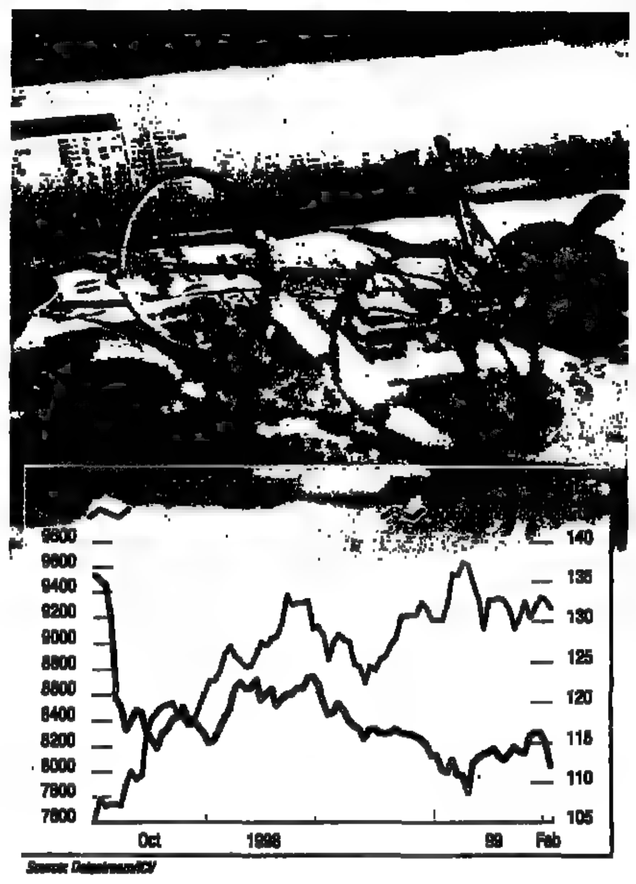
The recent move of Avinash Persaud, one of the best-known currency analysts in the foreign exchange market, has brought this into focus. Mr Persaud resigned two weeks ago as head of currency research at J.P. Morgan in London to take up the newly created post of head of currencies and managing director at Putnam Investments, the giant Boston-based fund manager.

Meanwhile, his former employer is holding a conference to promote the idea of currency "overlay" – where fund managers set targets for exposure to currencies as well as to assets. If the currency targets and asset targets do not match, the fund may have to adjust the asset portfolio by holding cash or other assets in a currency in which it is underweight or, increasingly, by using derivatives.

"There has been great interest in this, with most of those present coming from Europe," says Harriet Richmond, of J.P. Morgan Investment Management in London.

Without currency overlay, asset managers typically deal with currency risk in one of two ways. Some simply ignore it, assuming that what is good for a country's assets is good for its currency.

Others completely hedge the currency exposure to protect the value of their assets in the currency of their liabilities.



Source: Datastream/ICV

But currency analysts say the first of these is naive, the second expensive. Since October 1998, for example, US stocks have continued to soar while the US dollar has plunged 25 per cent against the yen. An equity analyst holding US shares to provide a return for yen investors would have lost more on the currency than was gained on the asset price.

The inception of the euro, adding another large, mainly closed economy with its own currency, increases the risk that exchange rates could fluctuate more than asset managers are used to. And hedging every exposure cannot only become laborious and hinder swift movement, it can also prove too expensive in certain markets. Practitioners use a variety of techniques to come up with recommendations for currency exposure.

Mr Persaud, who has been one of the most evident beneficiaries from the rise and rise of currency analysis, says it will soon be regarded as an essential part of the investment process. "Our time," he says, "has come."

Lex, Page 12
Currencies, Page 23

Deutsche Bank in talks over Newcourt stake

By Edward Alden in Toronto and William Lewis in New York

Deutsche Bank, the German banking group, is in negotiations with Newcourt Credit, the world's second largest asset finance company, on a deal that could give the Canadian group control of a portion of Deutsche Bank's worldwide leasing business.

In exchange, Deutsche Bank would acquire an equity share in Newcourt, understood to be roughly 40 per cent or C$3.3bn ($2.2bn) based on Newcourt's current market capitalisation.

A deal would make Deutsche Bank, which late last year agreed to take over Bankers Trust of the US, a leading global player in the rapidly growing asset financing business, which generates significantly higher profits than traditional bank lending.

For Newcourt, the arrangement would slash its borrowing costs and give it the resources to pursue new acquisitions.

Newcourt shares rose C$4 to C$54.50 in midday trading yesterday following a Reuters report that Newcourt was in negotiations to acquire Deutsche Bank's US leasing assets in the deal.

But a person close to the company said the two entities were discussing a larger deal that would turn control of Deutsche Bank's ailing leasing divisions in both the US and Europe over to Newcourt.

The negotiations are taking place between Newcourt and Deutsche Bank's core bank division.

Deutsche Bank paid a substantial premium to acquire ITT Commercial Finance in the US in 1995, hoping to capture a growing share of the high-margin asset finance business in the US. But the division has not performed up to expectations. The bank's GEFA group in Germany, Spain and Italy is a market leader in non-captive sales financing.

Deutsche Bank declined to comment yesterday. In Toronto, Newcourt released a statement saying the company "does not have any material information or news to disclose to the marketplace".

Newcourt has been searching for a large deal since last summer when talks with the Canadian Imperial Bank of Commerce, Canada's second largest bank, broke off.

Those talks were understood to involve CIBC, which currently holds a little more than 9 per cent of Newcourt stock, taking a larger minority position.

With Newcourt in play, other potential bidders are also looking at the company, including another Canadian bank and some US leasing companies.

Newcourt initiated the discussions with Deutsche Bank. A deal would solve two immediate problems for Newcourt.

First, it would slash the company's cost of borrowing dramatically by improving its credit rating.

Second, it would give the company, which is the world's second largest asset finance group after GE Capital, the resources to pursue new acquisitions.

COMPANIES & FINANCE: THE AMERICAS

HEDGE FUNDS BETTER RISK PROFILE PROMPTS FIRMS

LTCM backers meet over cutting exposure

By William Lewis in New York

Senior executives from each of the 14 financial institutions that bailed out Long-Term Capital Management last summer will meet today in New York amid growing signs of tensions at the hedge fund.

The meeting is the first time the senior executives have met since they convened at the Federal Reserve Bank of New York on September 23 and agreed to put up $3.625bn to save LTCM from liquidation.

Since then representatives of each of the firms involved have met regularly as a consortium board to oversee the fund's investments. However, today's meeting of the firms' most senior executives comes as a group of consortium members are pushing for the return of their bail-out money before the year-end.

The consortium comprises leading US and European institutions and each of them agreed to put in as much as $250m for up to three years to help stop the fund's liquidation causing turmoil in the world's equity and bond markets.

On the back of recent positive investment performance by LTCM – it now has assets of about $4.7bn – and a substantially reduced risk profile, the chief executive of one US firm said: "We would like to get our money back as soon as possible."

However the chairman of another consortium member said that with the fund achieving positive investment returns, he is keen to "stay for the ride".

Consortium members keen to exit have attempted to find a buyer for all or part of the fund's investments. None have so far proved successful but have effectively forced Mr Meriwether and other LTCM partners to start preparing the ground for raising new funds to buy out some or all of the consortium later this year.

In recent weeks the partners have been conducting global investor presentations.

While the consortium appears split on how long it should stay together, its members seem unanimous on one issue – preventing John Meriwether and the fund's founding partners from speaking publicly.

All have reacted furiously to public comments by partners in which they sought to blame in part the actions of Wall Street trading firms and other funds for LTCM's near collapse.

"I don't think you will see them speaking out again," said a senior executive at one of the consortium members. Mr Meriwether alleged earlier this month that after the rouble devaluation on August, certain institutions began trading against LTCM's investment positions, worsening its plight.

While they are sceptical about Mr Meriwether's ability to raise new funds, consortium members say they remain keen to help him.

Today's meeting, to be held at the New York offices of the leading Wall Street law firm Skadden, Arps, Meagher & Flom, is also likely to discuss the fund's on-going lending relationship between Chase Manhattan, the US bank, and the LTCM management company, owned by the partners.

With LTCM having substantially reduced its risk premium, consortium members are said to be insisting that Chase reduces the rate the management company is paying for the facility. Chase declined to comment.

Yesterday, a spokesman for LTCM partners declined to comment and a spokesman for the consortium said: "The purpose of the meeting is to brief the senior people who were involved in the initial stages of the recapitalisation."

Music leads Time Warner recovery

By Christopher Parkes in Los Angeles

Time Warner, Wall Street's favourite entertainment property for more than a year, gained more ground yesterday after it reported better-than-expected fourth-quarter results.

Encouraged by strong growth in magazines, music and the cable television business, and yet another bullish statement from Gerald Levin, chairman, investors marked up the shares 2 per cent in morning trading.

The net loss of 17 cents a share for the three months to the end of December beat analysts' forecasts of a 19 cent deficit, and included a one-off charge of $210m related to the sale of Time Warner's share in the Primestar satellite television consortium.

Income was also dented by $304m in expenses related to the redemption of preferred stock.

But all main operating divisions, led by music, showed strong gains in revenues and cash flow during the quarter, and the group ended the year with its debt reduced by $2bn to $16.5bn.

"We expect 1999 to be another record-breaking year," said Mr Levin.

In music, the company reported fourth-quarter operating cash flow up 34 per cent at $205m, continuing a change of fortunes which started in the previous quarter, and helped bring the division's income at this level to $493m for the year: an increase of 6 per cent.

Cash flow, defined as earnings before amortisation of intangible assets, is a measure commonly used by companies with heavy debts.

Publishing, which includes People and Fortune magazines, reported record cash flow for the quarter, up 18 per cent at $234m, driven by gains of more than 10 per cent in advertising revenues at leading titles.

In the film business, Warner Bros, which includes television programming, generated 20 per cent more cash flow than a year earlier, bringing the advance for the 12 months to 25 per cent.

Results from feature films during the year fell despite successes such as *Lethal Weapon 4* and *City of Angels*, but earnings were boosted by syndicated sales to cable and satellite operators of television series such as *Friends* and *ER*.

The TBS Filmed Entertainment division, which includes Castle Rock and New Line Cinema, had almost flat cash flow of $88m in the quarter.

Cable Networks saw cash flow up 15 per cent at $115m thanks to improved subscription revenues from HBO and the Cinemax film network.

AOL in online credit card advertising deal

By Roger Taylor in San Francisco

America Online, the leading internet company in the US, has signed an advertising deal with FirstUSA expected to generate $500m over the next five years.

Thought to be the largest ever internet advertising deal, it is a vote of confidence in the new medium by FirstUSA, the largest credit card lender in the US. FirstUSA has been an enthusiastic proponent of online marketing and in recent months signed a $60m deal with Microsoft and a $125m deal with Excite for promotion over the internet.

The company has established itself as the biggest financial services advertiser on the internet. It relies largely on direct mail to promote its range of differently branded credit cards ranging from a University of Tennessee affinity card to a cycling enthusiast's card. However, the internet can provide equally precise methods to promote the highly targeted cards.

"If we know somebody is looking at the web site of their *alma mater* we can suggest an affinity card linked to it," FirstUSA said. It added that its experience indicated that customers won through online promotions were no worse, and possibly better, than those won through other channels.

Some have suggested that customers who take out credit cards online are likely to be a worse risk because of the types of people who use the internet.

The deal is also a coup for AOL, which under the leadership of Steve Case is rapidly expanding its e-commerce capabilities, helped by the planned acquisition of Netscape, the internet software company.

The FirstUSA deal extends an earlier agreement between the two to promote co-branded credit cards and will also allow FirstUSA to promote its other products to AOL's 17m customers. AOL will run adverts for FirstUSA and advise the company on how best to use technology to target its message to online users.

Lee Spirer, a principal at management consultants Booz Allen & Hamilton which specialises in the financial services market, said FirstUSA was establishing its own brand name as the credit card name most associated with the internet.

"With anyone who has five credit cards there is a 50 per cent chance that one of them is a FirstUSA card. If, when people go to shop on the internet, the company can put its name at top of the customer's mind, there is a greater chance its card will get used," he said.

Steve Case: expanding AOL's e-commerce capabilities AP

Results lift hotel share prices

By Richard Waters in New York

Investors in the battered US hotels and gaming industry enjoyed a brief respite yesterday.

Two of the sector's biggest companies, Marriott International and Starwood, reported earnings that were slightly above Wall Street estimates. Meanwhile shares in a third, Patriot American, climbed on hopes that it was moving closer to shedding some of its crippling debt by selling properties.

However, the developments were not enough to dispel the generally gloomy mood that has hung over the group, brought on by fears about overbuilding of luxury hotels, falling demand from Asian gamblers and forced asset sales by formerly high-flying real estate investment trusts (reits).

Shares in Marriott climbed more than 5 per cent during the morning after the Washington-based hotels company registered an 18 per cent increase in net income during the final quarter of 1998, to $114m. Revenues rose 10 per cent to $2.5bn.

Starwood's stock recovered some lost ground after it reported a 55 per cent jump in funds from operations, the most widely used measure of reit performance. The company, whose brands include Sheraton and Westin, had warned in December that it would not hit Wall Street's earlier estimates. The $1.40 a share in funds from operations that it reported yesterday was in line with its December forecast, though Wall Street had expected it to earn slightly less.

Shares in the former high-flying reit rose $⅞, or 4 per cent, to $25⅝, though they are still 55 per cent below their 12-month high.

Patriot American rose by more than 7 per cent on a report that Hilton Hotels was negotiating to buy some of its properties and inject some new equity into the company. Patriot's shares climbed $⅜ to $5⅞, but are still worth barely a fifth of their value at the peak last year. Hilton fell $⅛ to $14⅛.

Reebok fails to stay the course

By Victoria Griffith in Boston

Misery loves company, and right now the only comfort sportswear maker Reebok can find in its woeful performance is that the entire industry has been in a slump.

On Tuesday, the company announced another set of dismal results for its fourth quarter of 1998, disappointing the market with its top line growth in particular. Sales fell 18 per cent to $705m; while profits of $845,000 reversed were into losses of $7.1m, or a loss per share of 13 cents compared with 1 cent profit last time. Paul Fireman, chief executive, peppered his remarks with comments about "overcapacity" and "softening consumer demand".

Yet Reebok may be more lonely than it would like to believe. Phil Knight, president of Reebok's nemesis, Nike, is upbeat these days, telling investors to expect improving sales in the second half of 1999. "Nike is justifiably optimistic," said John Shanley, a senior analyst at Van Kaspar Securities. "The retailers I've talked to all say they have a fantastic line for the fall: stylish and well-made clothes that will be sold on a somewhat exclusive basis."

While sales in the sector are expected to remain flat this year, many of Reebok's competitors, including Nike, Adidas, the German group, and the Massachusetts-based New Balance, will grow by gaining market share, say analysts. They will probably do so at Reebok's expense. Mr Shanley reckons Nike's US market share to be 41.5 per cent, and says it will probably climb to 45 per cent in 1999.

Adidas is expected to lift its share from 12 to 13 per cent and New Balance from 4.5 to 5 per cent. Reebok, on the other hand, may see market share dropping from 10.8 to a forecast 10 per cent.

Reebok has been on a downward spiral since the early 1990s. In 1987, the company seemed unstoppable as it overtook Nike to become the biggest US sportswear group. Now, however, Nike's revenue is almost four times that of its once archrival, and Adidas has been gaining ground steadily in the US over the last few years, as competition is grows as a result of new entrants like New Balance.

Reebok still has some cards to play. It has used aeronautics technology to create high performance footwear that analysts say may be the best in the market. Last year, it retreated from high-cost sports sponsorships that probably added little to the bottom line, and its balance sheet is looking a lot healthier. It is now re-positioning itself as a "grass roots" sportswear maker whose products promise value and performance to amateur athletes.

Yet the company continues to be plagued by poor distribution and branding. "Reebok doesn't seem to able to get the shelf space in the sportswear outlets that count right now," said Mr Shanley.

Further, US consumers' boredom with sports shoes and apparel is not making life easier for Reebok. American adolescents have become more interested in classic clothing from retailers like The Gap and Abercrombie, and it may take some time for the fashion pendulum to swing back to sportswear.

However, hope is on the horizon for the industry. European sales may grow this year, say industry watchers, and Asian revenues are picking up simply because consumers in those countries have held off so long from buying footwear. The summer Olympics in Sydney are also likely to encourage consumer interest.

But first Reebok needs to take advantage of these opportunities.

Air Canada moves to raise margins

By Scott Morrison in Toronto

Air Canada, the country's largest carrier, yesterday said it would cut staff and reduce the size of its fleet in a bid to raise the airline's operating profit margins to industry standards.

The airline also said the effects of a pilots' strike last autumn, as well higher airport service fees, led to a fourth-quarter loss of C$20m (US$13.2m), or 11 cents per share, against earnings last year of C$94m, or 51 cents per share.

It estimated that the strike knocked C$38m off operating income and C$22m off net income. The company slashed fares following the strike to win back inconvenienced passengers.

Operating revenues rose from C$1.4bn to C$1.5bn, but operating expenses rose 8 per cent to C$1.5bn, primarily due to a jump in airport and navigation fees as well as higher employee benefits.

Lamar Durrett, chief executive, said he would focus on raising revenues and controlling costs in 1999. "Our objective is to bring Air Canada's operating profit margins up to US industry competitive levels, currently in the 10 per cent range," he said.

The airline will shed 1,700 employees, about 7 per cent of its workforce, by the end of the year. It will also retire ageing aircraft and defer delivery of new Airbus to cut fleet capacity by more than 1 per cent this year.

Copeland appointed chief at Deloitte & Touche

By Jim Kelly, Accountancy Correspondent

Deloitte & Touche, the US professional services group, yesterday announced a new leadership team and signalled fuller operational integration of its global network of firms and the building of an associated international legal practice.

Partners of the US group, voting six months ahead of schedule to aid global restructuring, appointed James Copeland as chief executive, replacing J Michael Cook, chairman and chief executive, who has led the firm for 15 years but could not stand again.

Mr Copeland, 54, will also lead global integration and is expected to take over as chief executive of Deloitte Touche Tohmatsu in April. Ed Kangas, chief executive and chairman of DTT since 1989, will continue as chairman of the global board.

Mr Copeland led DTT's international strategy and structure committee.

DTT's plans mirror those of most of the Big Five firms, which are racing to build global integrated partnerships to serve multinational clients. Deloitte & Touche in the UK also has new leadership with similar goals.

Most of the Big Five have ambitions to build global legal networks but there are doubts that they can match the rewards of the larger law firms or overcome entrenched cultural differences.

Mr Cook and Mr Kangas effectively created the modern global firm as leaders of the US merger in 1989 of Deloitte Haskins & Sells and Touche Ross. The firm is fourth out of the Big Five but growing fast with 1998 revenues of $9bn, up 22 per cent.

Mr Copeland said he had no plans for a global merger with other members of the Big Five.

He said he wanted DTT to have a "flexible" structure to respond to the market but there were no plans to seek a public offering of any part of the firm. "We like the synergies of the true partnership," he said.

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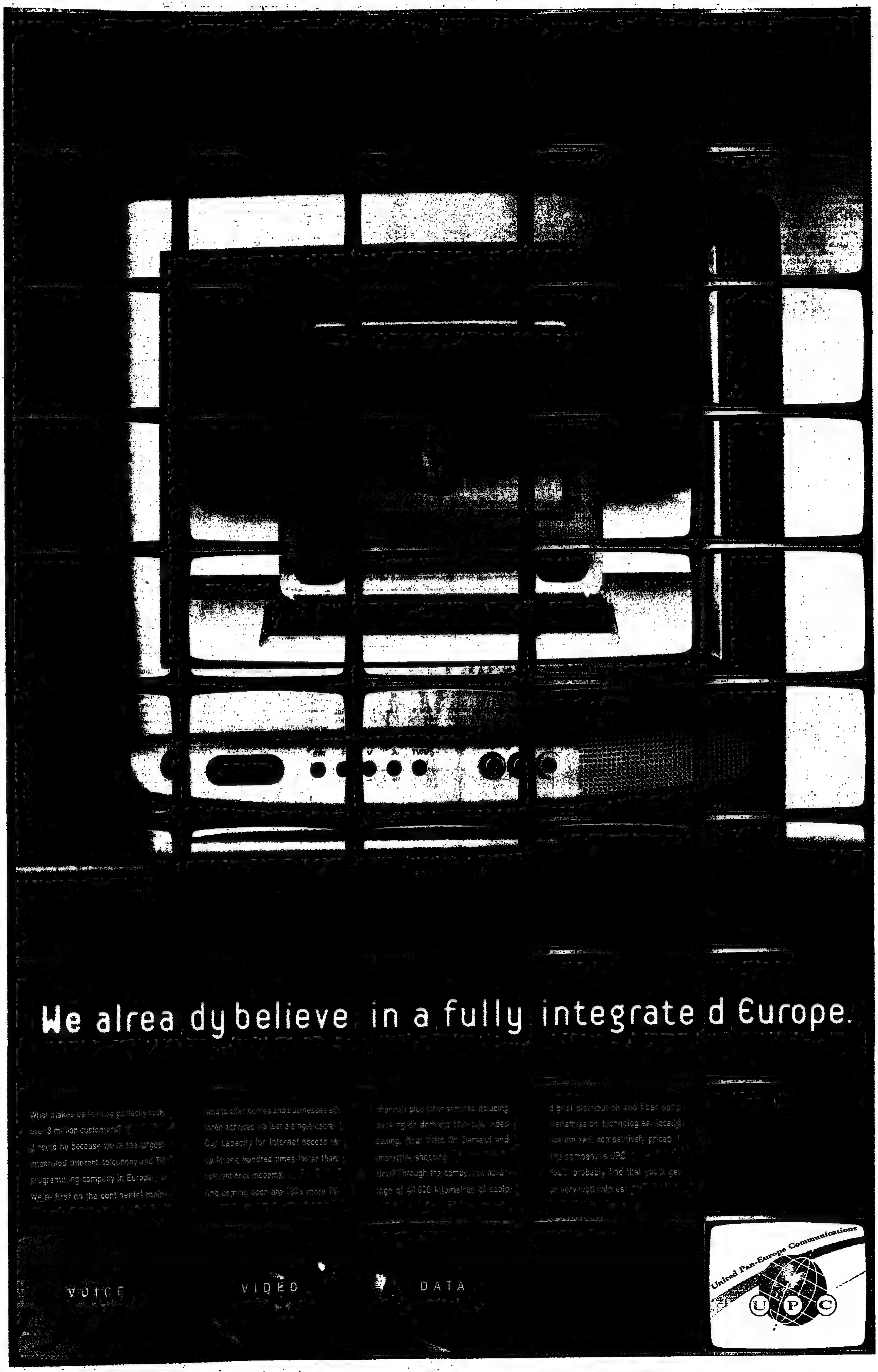


MINING GOLD COMPANY BENEFITS FROM RESTRUCTURING AND ASSET SALES IN SOUTH AFRICA

Anglogold lifts profit despite weak price

By Victor Mallet in Cape Town

Anglogold, the world's biggest gold mining company, boosted pre-tax profit to R2.88bn ($479m) in the year to December 1998 from R2.29bn in 1997 despite the weak gold price. The company said it had reaped the benefits of the restructuring sweeping through the South African mining sector.

Created out of the gold interests of Anglo American, the mining and industrial conglomerate, Anglogold sold 17 mine shafts in 1998 as part of its drive to focus on high-value operations. Bobby Godsell, the chief executive who has led the reform of the company and refers to the shafts as "factories", said yesterday the disposal of marginal South African operations was "substantially complete".

Production fell to 215.4 tonnes of gold from 239.3 tonnes the previous year. Anglogold said the 10 per cent drop was less than the planned fall of 17 per cent after the asset sales, and the performance reflected higher labour productivity and better management of the group's mineral resources.

Cash costs fell 2 per cent in rand terms to R40,439 per kilogramme, while dollar costs dropped 18 per cent to $229 per ounce, partly as a result of the weakness of the rand in mid-1998. Earnings per share rose to 1,697 South African cents from 1,416 on an appropriation basis. A final dividend of 800 cents has been declared.

The improvement over the year was more impressive under international accounting standards on an amortisation basis, with earnings per share rising 77 per cent to 324 US cents from 183. Anglogold's operating margin rose to 20 per cent from 5 per cent, and its return on capital employed doubled to 12 per cent.

In the last quarter of the year, Anglogold protected itself from the stronger rand and weak dollar gold price by continued hedging, receiving a steady R61,296 per kilogramme.

Pre-tax profit rose to R851m from R611m in the September quarter. Higher capital expenditure, however, pushed down net profit to R414m from R492m.

"Even at low gold prices and even with the strong rand, it is possible for a company like this to produce strong earnings," said Mr Godsell.

Like other South African gold companies, Anglogold has struggled to improve its investment rating among international analysts, who value North American mining companies more highly.

Fiat and Volvo clash over offer

By Tim Burt in Stockholm and Paul Betts in Milan

A war of words broke out last night between Fiat of Italy and Volvo over the terms of a putative $13bn-$14bn takeover offer for the Swedish automotive group.

Volvo, which last week chose to sell its car division to Ford of the US for SKr50bn ($6.39bn), suggested yesterday that Fiat had not made a "concrete" bid for the company. Officials close to the group also indicated that an offer of about $13bn fell way below the level that would be seriously considered by Volvo's board or shareholders.

That prompted a terse statement from Fiat. It said: "The Fiat Group, after several meetings with the Volvo management, tabled a friendly, concrete and detailed offer for the acquisition of the entire Swedish group."

Officials close to Volvo, however, indicated such an offer would have been unlikely to get a recommendation from the Volvo board. According to internal assessments, the Swedish group should be worth up to $20bn or $22bn, equivalent to about SKr400 a share. That valuation, including a bid premium, was based on the $6.5bn offered by Ford for the cars business, cash reserves and a price/earnings multiple of 14 attached to the remaining Volvo businesses.

Fiat has repeatedly emphasised it wanted to acquire the entire Volvo group because it saw significant industrial and commercial possibilities in the integration of the two group's activities, ranging from cars, trucks and earth-moving equipment to aero-engines.

Meanwhile, shares in Scania, the Swedish heavy truck manufacturer, yesterday rose more than 5 per cent on speculation that Volvo was preparing to launch a bid for the company. Scania's most commonly traded B shares have jumped 43 per cent in the past three weeks following Volvo's surprise acquisition of a near 13 per cent stake last month.

The latest share price rise followed remarks by Leif Johansson, Volvo chief executive, that the company was pursuing talks with Investor – Scania's controlling shareholder and the main vehicle for Sweden's Wallenberg business empire – that could lead to a "combination" between Volvo and Scania.

Mr Johansson said he was determined to expand Volvo's commercial vehicle interests following last week's decision to sell the car division to Ford.

INTERVIEW: DANIEL BOUTON and ANDRÉ LÉVY-LANG

SG Paribas to hold back on new structure

Keep them guessing: Daniel Bouton (left) and André Lévy-Lang are not rushing into job cuts in their international operations Ashley Ashwood

By Clay Harris and George Graham

Staff in the international operations of Société Générale and Paribas may not learn until the end of next month whether they have a job at the new SG Paribas.

André Lévy-Lang and Daniel Bouton, respectively chief executives of Paribas and Société Générale, said yesterday that deciding who fitted would be a "bottom up" process. It was likely to build on the existing respective investment banking strengths of the two banks.

"We did not decide to cut x thousand jobs from scratch ... we will continue to work off two legs – Paris and London," said Mr Bouton, who will be vice chairman and chief executive officer until he succeeds Mr Lévy-Lang as chairman/CEO in 2002. With a total of 4,100 staff employed by the two banks, London has the largest single presence outside France, followed by New York with 4,000.

The two bankers continued to stress the "complementarity" of the banks' operations. They also said SG Paribas was aiming to make at least half its cost savings in other areas such as information technology.

In France, job-cutting would depend on natural attrition. "The question will not be how to cut jobs, but how to recruit enough people," Mr Bouton said.

In announcing the merger, the banks revealed that their combined investment banking operations only broke even, before tax and after provisions, in 1998. "In a way, I'd say it was a very positive result," Mr Lévy-Lang said.

The figures included all provisions and losses for corporate loans, including FFr3.5bn (€534m, $608m) for Asia and FFr1.9bn for Russia. Until a year ago, SG had not suffered any losses on its Asian loans over 10 years, Mr Bouton said. "We had to provision in two years the cost of risk for 10 happy years," he said.

The banks had also suffered big trading losses in emerging markets, interest-rate derivatives and fixed income. This was offset by their best year for equities, Mr Lévy-Lang said, with profits in 11 months and a small loss in September.

The banks' credit ratings were put under review as soon as the deal was announced. Ratings agencies including Moody's and Fitch IBCA pointed to a possible downgrading for SG because of its perceived greater exposure to volatile earnings from investment banking and an upgrading for Paribas for the opposite reason.

SG Paribas is aiming to make at least half of its cost savings in other areas such as information technology

But Mr Bouton said SG Paribas's exposure would actually be reduced because of the merger, as the bank cut the proportion of equity allocated to corporate and investment banking. This would be achieved through combining trading books and a continued reduction of commercial lending.

When it comes to deciding the new ratings, balancing the opposite forces could be a problem for the agencies, since SG is rated AA- and Paribas only one level lower at A.

But Mr Bouton admitted: "The probability of a downgrading is significant."

Mr Bouton hoped the agencies would take their time to carry out the review, allowing the shape of the combined group to emerge more clearly.

Sanofi merger lifts Elf results

By David Owen in Paris

Elf Aquitaine, the French oil company, expects to show an exceptional profit of about FFr7bn (€1.07bn, $1.21bn) in its 1999 accounts as a result of the planned merger between Sanofi, its majority-owned drugs arm, and Synthélabo, another French pharmaceuticals company.

Philippe Jaffré, chairman, made the disclosure as the group announced preliminary figures putting expected 1998 net income excluding special items at FFr7.9bn-FFr8bn, down 21-23 per cent from a year earlier.

The company said the result demonstrated its resistance to last year's pronounced fall in the price of crude oil. "Elf favoured profitability over production volumes," Mr Jaffré said.

Total, which stands to usurp Elf's position as the biggest French oil group in the wake of its planned merger with PetroFina of Belgium, last week posted a 9.3 per cent reduction in its net income excluding non-recurring items.

Elf served notice that its final 1998 results would include FFr4.5bn of non-recurring items, suggesting that overall net income would reach FFr3.4bn-FFr3.5bn. These related partly to the depreciation of certain assets, notably in the Congo, and a negative adjustment for the decrease in the value of oil stocks.

Questioned on the Sanofi/Synthélabo-related exceptional profit, the company said the merger was treated under US accounting standards as a partial disposal of Elf's interest in Sanofi and an acquisition of a percentage of Synthélabo. Mr Jaffré also indicated that following the merger, which is expected to take place on May 18, Elf's 35 per cent interest in the new company would be accounted for by the equity method. He said the group's dividend would either be maintained or increased slightly.

Mr Jaffré also indicated the company was prepared to take a dispute with the European Commission over subsidies granted by the German authorities to help privatise and clean a large chemical site in the former East Germany to the European Court of Justice.

Senior Commission sources have said that unless Brussels received the details, it would demand repayment of part of DM1.4bn in aid.

Thomson-CSF cuts stake in Indra

By Tom Burns in Madrid

Thomson-CSF of France yesterday cut its equity in Indra, the Spanish electronics group, from 25 to 10.5 per cent and paved the way for the Spanish government's market sale next month of its 66 per cent stake in the group.

The Indra public offer, which will be worth up to Pta92.5bn (€555m, $630m) relaunches a wide-ranging privatisation programme by the government, interrupted by last summer's financial turmoil.

It will be followed by offerings involving Ence, the pulp producer, and Iberia, the national airline, that are also owned by Sepi, the state industrial holding company.

The disinvestment by Thomson-CSF, Indra's foremost partner in defence contracts, removes the government's concern about the presence of a dominant foreign equity holder in the electronics group following its privatisation.

Caja Madrid, the second-ranked domestic savings bank, said yesterday it had acquired 10.5 per cent of Indra from the French conglomerate. Zaragozano, a medium-sized bank, bought a further 4.5 per cent.

The value of the transactions will depend on the Sepi offer of Indra equity.

The two Spanish institutions will maintain their Indra shareholding for three years and it is understood that they will obtain a 20 per cent discount from Thomson-CSF on Indra's issue price for the acquisition of their stakes.

Indra, which is mostly active in the information and control systems sector, raised its sales last year by 41.6 per cent year-on-year to €584.87 and its net profits by 70.5 per cent to €21.03m.

The group's exports grew strongly in 1998 and accounted for 35 per cent of its turnover.

Sepi has appointed Banco Santander, the domestic bank, and Paribas of France as global co-ordinators for the Indra disposal.

More than 40 per cent of Sepi's initial offering will be earmarked for retail investors and Indra employees, 35 per cent will be allocated to international institutions, and 25 per cent to domestic institutions.

NEWS DIGEST

CARMAKERS

BMW dismisses talk of chief's removal

Speculation circulated yesterday that the board of German vehicle maker BMW may call for the removal of chief executive Bernd Pischetsrieder. The talk, denied by BMW, was sparked by a report in the weekly magazine Stern and came two days ahead of Friday's supervisory board meeting.

Stern said that BMW supervisory board chief Eberhard von Künheim favoured replacing Mr Pischetsrieder with Wolfgang Reitzle, sales and marketing chief. The magazine said Mr von Künheim blames Mr Pischetsrieder for underestimating the problems at Rover at the time of its purchase.

BMW said the meeting was a regularly scheduled one in which management will report to the supervisory board on the restructuring at its troubled UK Rover unit. But BMW did not rule out that some board members may raise personnel issues. Many analysts expect BMW to grant Mr Pischetsrieder another six months to improve performance at Rover. **Uta Harnischfeger, Frankfurt**

FINANCIAL SERVICES

Colonial in US acquisition

Colonial, the Australian banking and insurance group, is to acquire the Asian and UK funds management operations of Nicholas-Applegate, a US funds manager, for US$15.8m.

The move highlights growing competition in the Australian insurance and funds management market and follows a string of acquisitions by Colonial in Australia and overseas. The group's aggressive expansion strategy included last year's takeovers of the Australian businesses of Prudential Corp and Legal and General, both of the UK, for about A$2.2bn (US$1.4bn).

The latest deal by Colonial First State Investments, Colonial's fund management arm, would bring the group's total funds under management to A$1.4bn. Nicholas-Applegate Capital Management Asia and UK, which would trade under Colonial's Asian brand, CMB First State Investments, has more than US$400m in funds under management.

Nicholas-Applegate's international operations, while comparatively small, would strengthen Colonial's infrastructure in Asia and Europe, said Peter Polson, managing director of Colonial First State.

It would also provide entry to Singapore, adding to the group's operations in Hong Kong, Beijing and the Philippines, and expand Colonial's presence in Hong Kong ahead of the introduction of mandatory superannuation. **Gwen Robinson, Sydney**

BANKS TEST OF TOKYO'S ATTEMPTS TO REFORM THE SECTOR

LTCB seeks buyer for its operations

By Gillian Tett in Tokyo

Long-Term Credit Bank, the nationalised Japanese bank, is seeking a foreign or domestic buyer for its operations in what will be an important test for the government's attempts to press ahead with banking reform.

Takashi Anzai, president, said: "From this week we will be talking to interested parties about a sale. We hope to conclude a deal as soon as possible."

A deal with a western group would mark a significant increase in foreign penetration into the country's once-closed financial sector. Japan Leasing, the country's second largest leasing group and a key affiliate of LTCB, is being sold to GE Capital.

However, LTCB said that it had not yet received any firm offers from foreign or Japanese groups.

Some bankers have expressed doubts whether the business can be easily sold, given that its franchise has been badly eroded since the collapse last summer. It has also lost many of its staff.

LTCB has appointed Goldman Sachs as a financial adviser in the sale, and Mr Anzai insisted that the bank would take every step to ensure that it found a buyer. "We want to sell LTCB as a single entity, but we will accommodate the buyers' needs," he said. "The size of the sale will be fixed by the buyer."

LTCB's assets totalled almost Y30,000bn ($261m) last year. However, the level of good assets is believed to have shrunk to about half this since the summer.

Mr Anzai said it was trying to sell its huge bad assets to government institutions and was ready to negotiate with any buyer about the degree of liabilities any purchaser would share with the government. "It is possible that the government will create a special reserve system," he said.

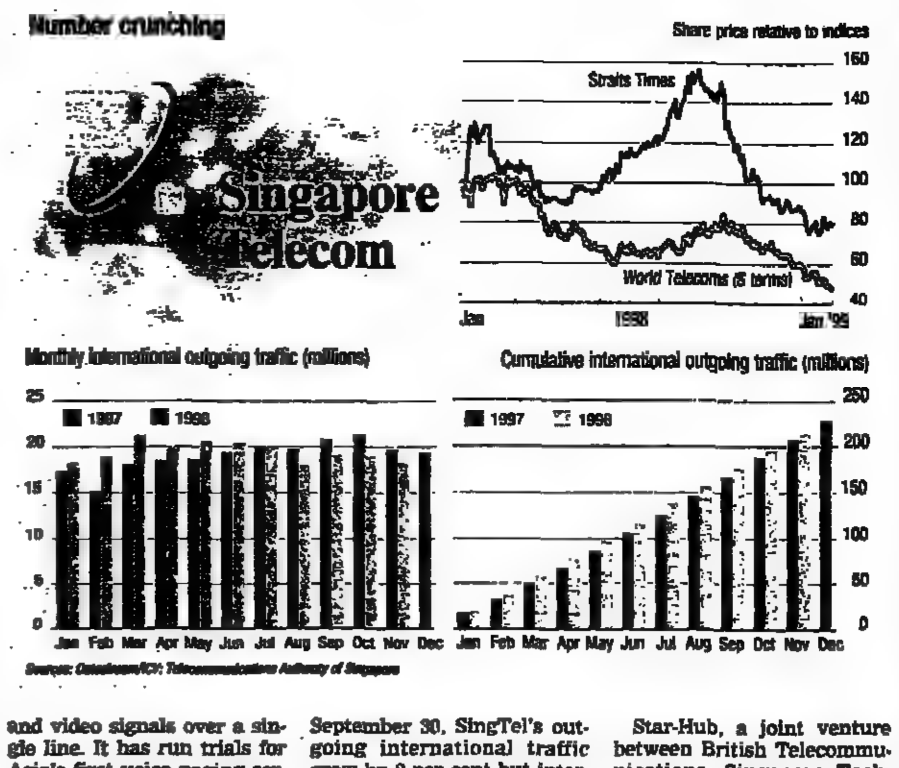
The price for LTCB is likely to be decided after negotiation with the Financial Revitalisation Committee, a government body that is overseeing banking reform. This committee will also soon decide the price that it will pay to LTCB's former shareholders for the shares that the government acquired last autumn. This is expected to be a token sum.

Sumitomo Trust, the trust bank, indicated last summer that it might participate in a merger with LTCB, but withdrew when the scale of LTCB's bad loans became clear.

However, some bank officials have indicated that Sumitomo may be interested in a deal, in an attempt to win government support for its own restructuring efforts.

SingTel engages in defensive moves

Loss of monopolies and falling market share are taking their toll, writes Sheila McNulty



In a current advertising campaign, Singapore Telecom has played on its 001 international access code to promote itself as a James Bond-type company: daring, confident, and authoritative. And why not – it's the biggest company on Singapore's stock exchange, holds a fixed-line monopoly, and has S$5.6bn (US$3.3bn) in reserves.

But SingTel must work hard to live up to its image, and behind the scenes it is on the defensive. Last year it offered rate cuts and discount packages that saved customers S$73m, about 20 per cent more than the savings offered in 1997. For 1999, it is promising S$340m more.

It lost its mobile monopoly in 1997, and although it continues to gain new customers it has been losing market share. The regional financial crisis has cut into traffic on its international telephone services, which generate about 40 per cent of revenue. And, despite being the bell-wether stock that foreign investors must buy or at least watch closely, analysts say its share price has underperformed the market in recent months.

The company is continuing to cut costs to customers and to upgrade its services in the hope of reviving traffic, while remaining regionally competitive and preparing for the loss of its fixed-line monopoly next year. Barely a week goes by without an announcement from SingTel about new products or further rate cuts.

It has announced reductions of up to 44 per cent in rates for its Integrated Services Digital Network, which enables high-speed digital transmission of voice, data and video signals over a single line. It has run trials for Asia's first voice paging service, opened the region's first global dial-up virtual private network and announced the launch of its first satellite.

"Rate reductions are reflective of SingTel's commitment to always remain competitive, promote customer loyalty and ensure that Singapore continues to be the pre-eminent telecoms hub in this region," says Brigadier-General Lee Hsien Yang, president and chief executive officer.

But the price cuts do not seem to be gaining the company a following amid the economic slowdown. "It is not having the desired effect it might in buoyant times," says David Fergusson, regional telecoms analyst for G.K. Goh Securities.

Analysts say SingTel's December international direct dial (IDD) call volumes were down 4.1 per cent month-on-month and down 2.1 per cent year-on-year.

For the first half ended September 30, SingTel's outgoing international traffic grew by 8 per cent but international telephone revenue decreased by 5.4 per cent, due to substantial IDD rate cuts. Net profit rose just 3.4 per cent to S$997.6m. Analysts are expecting flat results for the financial year to March, and SingTel is not building up anyone's hopes.

"The downward trend in the key business drivers, specifically international telephone traffic, new mobile subscribers and business lines, is expected to continue in view of the poor economic outlook in Singapore and the region," SingTel says. "The results of the group for the second half year are, therefore, expected to be weaker."

Michael Millar, regional telecoms analyst for SG Securities, says: "The longer-term fundamentals on the IDD side are not encouraging. SingTel gets 40 per cent of its revenue from IDD and that will be the main area of attack for Star-Hub when it comes on the market next year."

Star-Hub, a joint venture between British Telecommunications, Singapore Technologies Telecommunications, Singapore Power and Nippon Telegraph and Telephone, has been awarded licences to run fixed and mobile telecoms services from April 2000.

Analysts believe its combination of global and local infrastructures will provide stiff competition. But they are not prepared to write off SingTel. At the start of the year it bought a 20 per cent stake in Thailand's Advanced Info Service to add to 48 overseas projects it has in 18 countries. Analysts expect more such moves in the region.

"They've got massive piles of cash on the balance sheet and they need to put it to work," Mr Millar says. If they can do that out of the country, losing the monopoly at home might not be so painful.

Analysts consider SingTel to be fair value between S$2.37 and S$3.40. Its shares closed yesterday at S$2.28.

Indosat surges ahead of sell-off

By Sander Thoenes in Jakarta

Indonesia Satellite, the international call operator, yesterday beat expectations with an 82 per cent rise in 1998 net profit and said it expected to complete the sale of a 12 per cent government stake in March.

Indosat, which is 65 per cent state-owned, said profits reached Rp1,186bn ($131m), compared to Rp640.8bn for 1997. Analysts had predicted profits of about Rp1,000bn.

Operating revenues were up 44 per cent to Rp2,102bn. Interest income jumped from Rp94bn to Rp245.4bn, and foreign-exchange gains were Rp182.8bn, against Rp89.9bn, but the rebound of the rupiah and reduction of interest rates late last year caused both to decline in the fourth quarter.

Operating expenses were up 31.6 per cent, owing largely to translation of dollar cost into rupiah, according to the company, which said it cut costs by relying more on submarine lines than on satellites.

Indosat came under pressure when the rupiah rebounded and traffic started to decline in the second half of the year. The company kept a market share of 87 per cent, but incoming calls were down 11.4 per cent in the final quarter and use of services such as package switching nose-dived.

Government approval of tariff increases of 50 per cent in November eased the impact of declining traffic and Indosat said it was pushing for another increase.

The results and expectation of demand for public shares after the sale built on the steady rise of Indosat's shares in the past week. The shares closed at Rp11,725, from Rp11,200 the day before and Rp10,350 a week ago.

NEWS DIGEST

CHINA

Companies to help Itic meet debt repayments

Companies controlled by the municipal government of Dalian, a port city in the north east of China, are expected to provide funds to help the troubled Dalian International Trust and Investment Corp (Ditic) meet its debt repayment obligations, city officials said yesterday. The move illustrates for the first time how a credit squeeze hitting 239 Itics in many parts of China can have an impact on key local companies and the wider economy.

"Municipal companies that are shareholders in Ditic will make sure that its debts are all repaid and there is no default," said one official from Dalian, who declined to be identified. He did not name the companies in question.

Foreign bankers have noted that Ditic was experiencing problems in servicing its foreign debt, raising concerns that the Dalian trust corporation could suffer the same fate as the Guangdong Itic, which began bankruptcy proceedings last month.

Li Yongjin, vice-mayor of Dalian, offered an assurance yesterday that Ditic was quite able to repay its debts, and added that media reports had vastly overstated the trust's assets. He said Ditic repaid US$170m last year and had US$140m in outstanding debts. **James Kynge, Beijing**

RETAIL

Tesco, Samsung eye venture

Samsung Corporation, the trading arm of the South Korean conglomerate, is negotiating with Tesco, the UK's biggest supermarket group, over a retail joint venture which it hopes could be established within the next two months. Samsung launched a retail division last year and may be seeking Tesco's help to boost the business, given its parent's financial difficulties.

It opened a department store and two hypermarkets in the Seoul area to compete against other leading Korean groups, including Hyundai and LG, which already have sizeable retail operations.

Tesco had hoped to buy a retail business in South Korea, repeating the success of its acquisition of the Lotus chain in Thailand last year. However, it has been unable to find a suitable takeover target and has been talking to a number of potential partners instead.

■ Samsung and Daewoo yesterday agreed to sign a memorandum of understanding by February 15 on the transfer of Samsung's car division to Daewoo, South Korea's second biggest car producer. The two companies have been under government pressure to conclude the deal and stop a month-long strike by Samsung Motors workers over threatened job losses. Samsung is expected to take over Daewoo Electronics in return for its car business. Daewoo Electronics workers have also gone on strike over the deal.

The swap between Samsung and Daewoo, announced in early December, has stalled over Samsung's demand that Daewoo continue production of its SM5 saloon series, although Daewoo makes a similar model, as Samsung seeks to protect the jobs of subcontractors.
John Burton, Seoul, and Peggy Hollinger, London

CAMERAS

Minolta sees profits decline

Minolta, the Japanese camera manufacturer, yesterday forecast a 10 per cent drop in full-year parent operating profit to Y14.8bn. Sales and net profits for 1998 would both fall short of its previous forecast, the company said. It added: "The weak demand in Asia and the domestic market for cameras and printers hit us harder than expected. Also, the competition in the US and Europe is increasing. Office automation equipment sales are higher than last year, but still below expectations." **Julie Hess, Tokyo**

DuPont in Japanese polyester venture

By Alexandra Nusbaum in Tokyo

DuPont, the leading US chemical and plastics maker, yesterday unveiled plans to collaborate with Teijin, the large Japanese synthetic fibre manufacturer, in a 50-50 joint venture in an attempt to strengthen its position in the competitive global polyester production business.

The joint venture will produce more than 300,000 tons per year of polyethylene terephthalate (PET) and polyethylene naphthalate (PET) polyester film and have sales of about $1.4bn, according to Yoshikuni Utsunomiya, investor relations general manager at Teijin.

DuPont said the venture would be the industry leader in polyester films.

Teijin has a market capitalisation of Y398bn ($3.5bn) and produces 90,000 tons per year of polyester film. DuPont produces 250,000 tons per year.

The deal is the latest step in the global restructuring of the PET film business. Last year, Hoechst, the German chemical and pharmaceutical company, sold its share of a polyester film joint venture to its Japanese partner, Mitsubishi Chemical. DuPont also signed a letter of intent with Alpek S.A. de C.V. to produce and market polyester staple fibre, and in 1997 it acquired the PET film business from ICI.

DuPont and Teijin have had joint ventures in Luxembourg and Ohio since 1991.

"This is a reasonable arrangement that strengthens DuPont's core polyester business. DuPont is stronger in packaging and general uses, while Teijin is stronger in industrial uses. And DuPont is weak in PEN film where Teijin has a good product," said Tommy Tang, analyst at Merrill Lynch.

Teijin's shares closed yesterday at Y425, up 7 per cent, or 28 points, from the previous day. Teijin has fallen 57 per cent from its peak of Y1,000 in August of 1992.

It forecast consolidated net sales for the year ending March 1999 at Y600bn, with operating income at Y33bn and net income at Y9bn.

GOODYEAR-SUMITOMO MERGER

REACTION SHOCKWAVES ACROSS THE ATLANTIC SET TO LEAD TO FURTHER CONSOLIDATION

Europe stands by for a rolling tide

By John Griffiths in New York

The shock waves from Goodyear's strategic alliance with Sumitomo Rubber Industries rolled across the Atlantic yesterday.

The deal, which creates a clear leader in the global tyre industry leader, is expected to trigger a new round of consolidation in the $75bn turnover industry – and it is in Europe that the effects are likely to be most keenly felt.

Western Europe is home of Continental of Germany and Pirelli of Italy, two of the three "second tier" tyre manufacturers likely to feel most intensely the competitive pressures from the Goodyear-Sumitomo alliance. The third, Yokohama of Japan, has already been linked by speculation with Michelin – and the French group is likely now to be even more anxious to pursue such a link to lever open the Japanese tyre market, in the same way that Goodyear is doing with Sumitomo.

Michelin yesterday suggested that such consolidation was inevitable, since the position of "semi-global players" such as Sumitomo was unsustainable in the long term. If anything, it added, yesterday's deal was a good thing since there was no longer any reason for the Japanese group to engage in a price war.

Nevertheless, the French company has been investing heavily in Asia and other emerging countries in an attempt to lift its market share from levels it believes are inadequate. In 1997, the group's Asian turnover represented 6.8 per cent of sales totalling nearly FFr80bn (€12.2bn, $13.9bn).

Following the Goodyear-Sumitomo deal, Continental – which includes General Tyre of the US and the Semperit and Uniroyal brands – ranks as the fourth biggest tyre maker. Pirelli, whose brands include Armstrong in the US and Metzeler, now ranks fifth and Yokohama sixth.

However, all three are far below the "big three" grouping of Goodyear-Sumitomo, Michelin and Japan's Bridgestone. Continental has tyre

Pirelli has invested heavily in Brazil but unlike Michelin has shied away from a manufacturing presence in east Asia.

sales of about $4.5bn – less than half the $11bn-$12.5bn of Michelin and Bridgestone, and less than one-third of the $15bn-plus of Goodyear-Sumitomo. Pirelli's and Yokohama's tyre sales are in the $3.5bn-$3.9bn range.

Samir Gibara, Goodyear chairman, expects Goodyear to achieve annual savings of up to $360m over the next three years through more effective purchasing, distribution, research and development, and other synergies.

Against this changed background, he suggests, smaller companies must look increasingly exposed.

Competition in Continental's and Pirelli's west European backyard is set to become particularly stiff. Goodyear and Sumitomo will soon start work on rationalising product lines, manufacturing and distribution of the eight west European plants that Sumitomo will bring to its European joint venture with Goodyear under the Dunlop brand name, and the six plants that Goodyear has in the region.

Even the deal signed yesterday combines Goodyear's claimed 16 per cent market share and Sumitomo's 8 per cent to rank the new group second behind Michelin's dominant European share of nearly 30 per cent.

The prospect of a much more efficient competitor, with slashed costs and a revitalised Dunlop brand name, is likely to provoke a response from Michelin and make Continental's estimated 15 per cent and Pirelli's 11 per cent shares more difficult to defend.

Might, then, Continental and Pirelli stage a defensive merger after all?

The initial answer appears to be 'no': in the early 1990s, an expensive attempt by the Italian group to take over its German rival was rebuffed and both companies can now point to aggressive strategies designed to ensure that they remain significant forces in the global tyres game.

Giovanni Ferrario, Pirelli Tyres general manager, insists the company's automated, flexible manufacturing systems will continue to allow it to compete on costs, while position in high-performance tyres will give it better than average margins.

Pirelli also has a powerful presence in many emerging markets: it has invested heavily in Brazil, where it is market leader, but unlike Michelin has so far shied away from developing a manufacturing presence in east Asia.

After its failed attempt to take over Continental, Pirelli has undergone a restructuring that has returned it to profit and positioned it strongly in the high-growth, high-technology photonics and optical fibres market.

The restructuring has essentially involved a value-orientated rather than volume strategy in the company's mature business, while at the same time expanding the company's energy and telecommunications cable activities through acquisitions.

For Continental, Hubertus von Grunberg, chief executive, maintains that his group, too, has competitive new manufacturing techniques and that shifting much production to low-cost locations in eastern Europe – its plant in the Czech Republic is already its biggest – while continuing to produce high-tech tyres in Germany should assure its future.

As a result, both have emerged profitably from the dark days of the early 1990s, albeit on slimmer margins.

Yet both Continental and Pirelli are hedging their bets. Mr von Grunberg has been taking the German group increasingly into high-technology automotive components, such as electromechanical braking systems, far removed from the tyres sector and with much better margins.

Pirelli is continuing to build, by acquisition, the cables and communications business which accounts for more than half total group sales.

In the final analysis, however, both may find it increasingly difficult to prevent themselves becoming a target for one of the "big three".

Additional reporting by David Owen in Paris and Paul Betts in Milan

Tyre treads across Europe

Europe: truck tyres
Market share, by revenue (%)

Company	1994	95	96	97
Michelin	43	43	42	40
Bridgestone/Firestone	10	10	12	12
Goodyear	10	10	9	10
Continental	15	17	17	16
Sumitomo/Dunlop	8	7	7	7
Pirelli	7	6	6	6
Other	7	7	7	9

Europe: passenger car tyres
Market share, by revenue (%)

Company	1994	95	96	97
Michelin	30	28	27	27
Bridgestone/Firestone	8	9	9	9
Goodyear	12	13	13	13
Continental	17	18	20	21
Sumitomo/Dunlop	7	8	8	7
Pirelli	13	11	10	10
Other	12	12	13	13

Source: Dresdner Kleinwort Benson

MARKET RESPONSE

Share price spin-off for other makers

By David Owen in Paris, Paul Betts in Milan and Uta Harnischfeger in Frankfurt

Investors drove up the share prices of European tyre makers yesterday in the wake of the Goodyear-Sumitomo alliance, on hopes that the deal would lead to a fresh round of consolidation in the sector.

In Paris, Michelin shares were ahead more than 4 per cent at €34.19. The group denied that Goodyear's move put it under greater pressure to conclude its own Asian alliance, though it acknowledged it was looking at opportunities.

"We have critical mass," it said.

Analysts were divided on the likely consequences of the deal. Gregory Melich, at Morgan Stanley, said the deal "could be a plus for everyone" since it could potentially relieve some of the pricing pressure in the sector as companies started to think more globally.

"If there is a competitor with more mass, it is potentially a risk for Michelin, but I think it is more than offset," he said.

Emilie Bizec, automotive equipment analyst at Crédit Lyonnais Securities in Paris, suggested the deal could increase pricing pressure in Europe, where the new grouping will be number two, since the move might enable it to optimise use of capacity and improve efficiency.

"I think the face of the tyre industry may change as a result of this. There may be more consolidation," Ms Bizec said.

In Frankfurt, shares of Continental surged more than 8 per cent to €24.3 on speculation that the German tyre maker might become a takeover target for Bridgestone.

Analysts suggested the Japanese group would benefit from Continental's presence in Europe and North America.

Also, Continental is moving into high-technology, higher margin activities, such as the chassis and brake business.

"Continental is going in the right direction, and as such they offer a lot of added value," said Eva Sonnenschein, analyst at Deutsche Bank in Frankfurt.

In Milan, shares in Pirelli jumped more than 4.5 per cent to €2.49, buoyed by the company's results on Tuesday which showed a 16 per cent rise in 1998 pre-tax profit to L795bn (€410m, $466m) despite a 5.5 per cent decline in group sales to L10,647bn.

Although there was speculation last year that Pirelli was a possible takeover target, Marco Tronchetti Provera, its chairman and largest shareholder, has since reinforced his hold over the group with a number of friendly shareholder allies.

The Italian company appears satisfied with the current size and structure of its tyre business and has shown no signs of considering an acquisition.

JAPANESE TYRE INDUSTRY

Brands and cutbacks drive change

By Alexandra Harney and Alexandra Nusbaum in Tokyo

The Goodyear-Sumitomo deal raises the stakes in Japan's tyre industry. Consolidation has already driven many companies into small-scale strategic alliances with foreign manufacturers but the Goodyear deal means the big five Japanese producers will have to join one of the global brands – Bridgestone, Michelin or Goodyear – or face erosion of market share and cashflow.

Industry observers say the two biggest factors driving the consolidation are the need for brand recognition and economies of scale. The trend towards increasing export volumes and production overseas, particularly in Europe and the US, is forcing tyre makers into alliances to avoid the costs of building factories and sales networks overseas.

The deal with Sumitomo gives Goodyear better access to the Japanese market, while the alliance is likely to strengthen Sumitomo's financial position.

In 1997, the latest year for which figures are available, Sumitomo's net earnings jumped nearly 25 per cent to Y5.85bn ($52m) on sales up 5.4 per cent to Y613.75bn.

Although the company has not released 1998 earnings, analysts warn that rising inventories as a result of weakening demand could damp prices and profitability.

In addition, Sumitomo Rubber was heavily leveraged with a net debt to equity ratio of 3.3. Total debt was Y311,726m, against shareholders' equity of Y93,855m. Current assets were Y313,379m, of which cash was Y20,098m. Total assets were Y644,631m. Capital expenditures were Y46,527m.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

½ hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh	TS use of system price £/MWh
0030	22.03	22.49	22.44	0.91
0100	27.23	28.19	28.14	0.91
0130	9.40	28.19	28.14	0.91
0200	9.38	28.19	28.14	0.91
0230	9.40	22.49	22.44	0.91
0300	9.38	22.52	22.46	0.91
0330	9.38	28.22	28.16	0.91
0400	9.38	28.22	28.16	0.91
0430	9.38	28.22	28.16	0.91
0500	9.38	10.74	10.74	0.00
0530	9.38	8.50	8.50	0.00
0600	9.40	9.30	9.30	0.00
0630	20.58	9.38	9.38	0.00
0700	20.58	15.20	15.20	0.00
0730	28.67	38.00	37.98	0.91
0800	28.67	40.13	40.07	0.91
0830	28.67	40.47	40.41	0.91
0900	28.67	46.50	46.45	0.91
0930	28.67	40.47	40.42	0.91
1000	53.98	46.50	46.45	0.91
1030	53.98	46.50	46.46	0.91
1100	53.98	46.50	46.45	0.91
1130	53.98	46.50	46.45	0.91
1200	[illegible]	46.51	46.45	0.91
1230	72.70	46.51	46.45	0.91
1300	72.70	46.50	46.45	0.91
1330	31.73	46.50	46.45	0.91
1400	27.76	46.50	46.45	0.91
1430	32.96	46.50	46.45	0.91
1500	32.96	46.50	46.45	0.91
1530	32.96	46.51	46.46	0.91
1600	31.74	40.65	40.68	0.91
1630	35.60	56.24	57.32	0.91
1700	65.88	74.96	77.48	0.91
1730	65.64	87.43	90.11	0.91
1800	66.48	84.78	88.82	0.91
[illegible]	64.86	57.89	58.51	0.91
1900	62.72	53.60	53.72	0.91
1930	51.78	55.92	55.92	0.91
2000	43.55	52.42	52.37	0.91
2030	43.50	40.47	40.41	0.91
2100	35.50	94.31	94.26	0.91
2130	28.62	94.31	94.26	0.91
2200	25.79	98.86	98.80	0.91
2230	25.79	98.86	98.80	0.91
2300	25.79	28.06	28.00	0.91
2330	9.44	22.36	22.30	0.91
2400	9.42	11.00	11.00	0.00

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left. [illegible]

هكذا من الأصل

Sage acquires Peachtree for $145m cash

By Paul Taylor

Sage, the UK accountancy software group, is to buy Peachtree, a US personal computer accountancy software company, from Automatic Data Processing, for about $145m cash.

The purchase, which will double Sage's customer base to about 2m and confirms the Newcastle-based group as one of Europe's most successful and dynamic packaged software and services companies, was part-funded by a placing.

BT Alex Brown International, the investment bank, placed 3.49m new shares representing about 3 per cent of the expanded capital, at £19.10 each to raise £66.6m before expenses.

The rest will be paid out of Sage's cash resources.

The deal, coupled with a bullish trading statement, pushed up the group's shares, which closed 77½p higher at £20.40.

ADP had planned to float Atlanta-based Peachtree on Nasdaq last October, but abandoned the plan because of market conditions at the time.

Peachtree made operating profits of $5.97m in the year to June 30, on turnover of $52.5m.

Paul Walker, Sage's chief executive, said the deal would give the company "a strong presence in the entry-level US accounting software market, complementing the position we already occupy with our existing business in the US, which markets its products and services to somewhat larger companies".

Mr Walker also believes it will be possible to expand Peachtree's services revenues.

Some 35 per cent of Sage customers have taken out support contracts while only 3.5 per cent of Peachtree's customers are covered by similar arrangements.

Analysts echoed his comments and said the deal was "an excellent strategic fit", which would complement Sage's other main US business, State of the Art, another accounting software group which was acquired just over a year ago for £220m.

Sage believes it can use Peachtree's strong presence in the entry level market – the accountancy software market based upon PCs – to generate significant revenue growth, although about 60 per cent of the combined group's annual turnover will still be derived from Europe.

Sage said that is expected the acquisition will have a broadly neutral impact on its earnings for the current financial year and would be enhancing thereafter.

ICI seals succession and names chief executive

By Virginia Marsh

Brendan O'Neill, a former head of the Guinness brewing business, is to succeed Charles Miller Smith as chief executive of Imperial Chemicals Industries in April.

Mr O'Neill, 50, ICI's chief operating officer for the past nine months, takes over as the indebted group is struggling to sell its remaining industrial chemicals businesses and complete a switch to speciality chemicals.

The group, which has net debt of some £4bn ($6.6bn), is today expected to announce a sharp fall in pre-tax profits to £315m (£385m) before exceptionals last year, giving interest cover of less than 2. Profits will barely cover the dividend payment, which ICI has said will be maintained at 32p, although many analysts expect the pay-out to be cut in future.

The market had at one point thought the group would make profits of £1bn in 1998, and a series of downgrades and problems with its disposal programme have been behind a collapse in the share price. Yesterday, the shares fell 26½p to 518p, down from £12.44 last May.

Mr O'Neill's appointment had been widely expected. The group said last year that Mr Miller Smith would become chairman in succession to Sir Ronald Hampel, who is to retire at the annual meeting in April.

Mr O'Neill said yesterday he was "110 per cent" in favour of the group's present strategy.

The latest of a series of setbacks to the group's disposal programme came last month when deals to sell its Tioxide businesses to DuPont and NL Industries, both of the US, for £598m, collapsed after being blocked by US regulators.

Federal-Mogul likely to bid for LucasVarity

By Michael Peel

It is increasingly likely that Federal-Mogul, the US braking systems manufacturer, will mount a bid for LucasVarity, the UK-listed car components group.

LucasVarity has received a £4bn ($6.6bn) takeover offer from TRW, the US steering systems and spacecraft manufacturer, pitched at 288p a share. However, Federal-Mogul led by Dick Snell, its acquisitive chief executive and chairman, is understood to be pleased with the results of a due diligence exercise taking place in New York.

People close to Federal-Mogul suggested Friday was the earliest the group might unveil an offer.

Federal-Mogul, which is due to release its fourth-quarter earnings figures today, may wait until after the release of TRW's offer document, which is expected to be mailed this weekend.

The Takeover Panel said that the Federal-Mogul team had been working on internal Lucas documents since Monday, following a panel decision that the US company was entitled to the same three day study period granted to TRW.

The panel said it was "fair to say" that Federal-Mogul thought it should be allowed access for more than three days.

The panel said last night that it was discussing the issue of access with both parties.

"Federal-Mogul is entitled to all the information that was given to TRW, provided Federal-Mogul asks for it," said Mark Curtis, a secretary at the panel.

LucasVarity said it expected Federal-Mogul to have gained all the information that it needed by the close of business in New York today.

LucasVarity shares closed ½p higher at 290p

COMMENT

Pensions

One, unflattering, name suggested for a since rejected prototype for the new pensions vehicle was Muffin (multi-functional investment), as in Muffin the mule.

As it happens, this new product looks like a potentially successful cross between UK personal pensions and the US-style 401(k) individual investment accounts. Freeing the type of investment products on offer, and making them more transparent, should stimulate demand. It is too simplistic to see the new products as good for the unit and investment trust industries but bad for life assurers. The latter already offer unit trusts and, as fund managers, will enjoy access to growing pools of savings.

But the government's initiative may well speed up changes that could affect profits. The first is more negative publicity for products that earn their keep through the penalties paid by consumers who drop out early. The second is greater transparency of performance and charges. This should make it easier for consumers to compare the underlying products, creating different winners and losers.

The really big challenge for the pensions industry remains the same. How to make money out of less well-off customers, especially as the flexibility that they need costs money.

For all the volume growth that providers enjoy, growing concern about margins calls into question life assurers' racy ratings.

Shareholder activism

Imagine getting venture-capital style returns without all the expense of buying out a company. This is the idea behind UK Active Value, which takes stakes in small companies and shakes them up.

The record – a net return to investors of 20-30 per cent – has brought Calpers into a new, larger fund. The risk is that the bigger Active Value becomes, the less effective it will be.

Managements of larger companies are under greater public scrutiny than the minnows Active Value has fried, leaving fewer targets. Furthermore, their undervaluation may be due less to bad management than a structural bias against non-FTSE 100 stocks. Still, it will be fun to watch the fund at work.

Wassall, following its unpopular transformation last year into a quoted quasi-venture capitalist, should take note.

Reckitt & Colman may receive an invitation to the takeover ball

Speculation about a bid for the household products group is rife but suitors may stay their hand, writes **Maggie Urry**

If Reckitt & Colman's share price has got it right, the company is about to receive a takeover bid.

Since Tuesday's sudden announcement that Vernon Sankey, chief executive since 1992, had resigned, the shares have risen 70½p – nearly 9 per cent – to 891½p.

Speculation about a bid is rife, and a lengthy list of candidates has been drawn up, ranging through Unilever, the Anglo-Dutch group, Procter & Gamble and Sara Lee from the US, and Henkel, the German household products maker. There are plenty of possible bidders with the ability to find the cost of buying Reckitt, which could be as much as £5bn.

But has the market missed the point? One analyst says: "The chances of a bid are pretty small. And if you look at why Vernon Sankey has gone its obvious no one is going to bid ... yet."

To many, Mr Sankey's departure is a something of a puzzle. He is widely regarded as having done a good job in the 1990s, restructuring Reckitt's business and positioning it as a global household products group.

Now, the company line goes, the group needs a new chief executive to manage the "next phase of the strategy".

Or as some in the company have put it, Mr Sankey is just too nice and too much of a team player. "They need a tough guy to bully the business," interprets an analyst. "Why do they need someone tougher? Because things are bad. Someone has to stand up in March and say 1998 was not good, and the outlook is worse."

Mr Sankey had often promised shareholders 10 per cent annual earnings growth. But investors were beginning to realise that this rate of growth would not be forthcoming, at least without confusing the figures by including disposal profits.

Why? Look under kitchen sinks or in bathroom cabinets from Britain and North America to Brazil and Thailand, and many of the brands there are Reckitt's.

Many others belong to those rivals that are regarded as Reckitt's likely suitors, and they too are facing difficult trading conditions.

They are all fighting for volume growth but not seeing much in developed markets.

The aim there is to squeeze costs, and Reckitt has already been successful in extracting substantial cost savings by rationalising its manufacturing base, introducing group-wide procurement programmes, and such like.

Meanwhile, the various companies have turned to the emerging markets for growth. But recently these have come under a cloud. Brazil, where Reckitt makes 10 per cent of its profits, is the latest trouble spot.

Analysts are beginning to realise that 1999 will, if anything, be even worse than 1998

Additionally, Reckitt has been hit by North American retailers destocking as they adopt "efficient consumer response" methods which involve quicker delivery schedules and could dislocate Reckitt sales for up to 18 months.

The group warned last November that profits for 1998 would not meet expectations, and that statement was followed by cuts in estimates, which now centre at about £290m before exceptional costs.

But now analysts are beginning to realise that 1999 will, if anything, be even worse than 1998.

One says: "I'm officially on £290m for 1999, which is the consensus, but I think it will be in the £240m to £260m range."

Another says: "My original forecast for 1999 was £350m, but now I'm on £275m. That's a long way adrift. We have not got to the end of the downgrades yet. A predator is not going to wade in now."

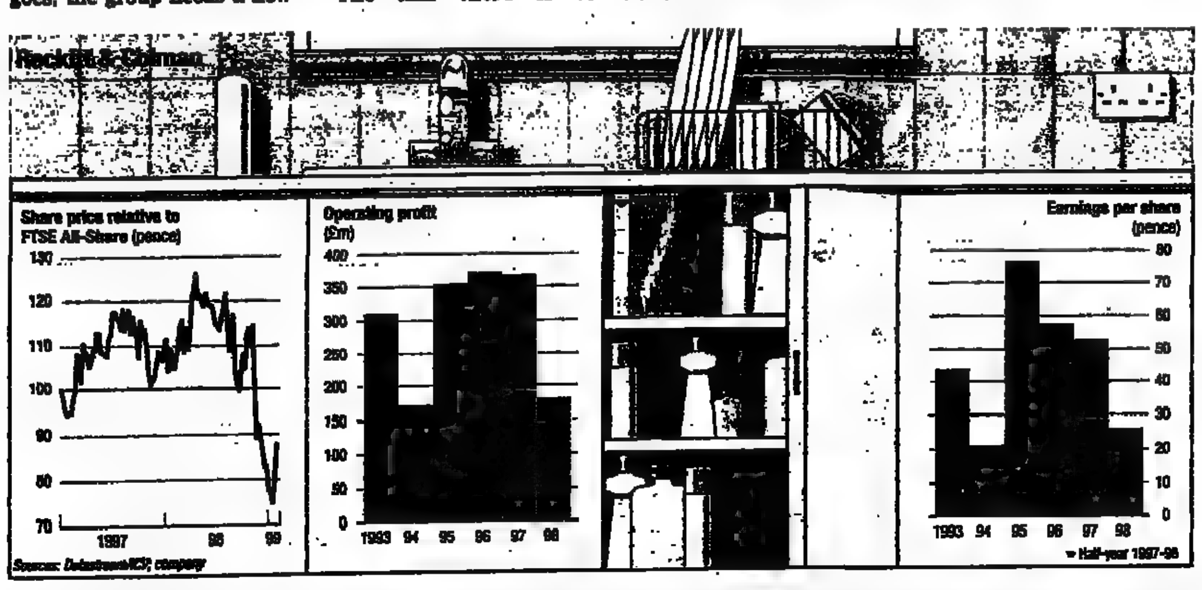
That is not to deny Reckitt's attractions. Julian Hardwick, of ABN Amro, says: "Reckitt is a fundamentally sound business, with strong market positions and a very international base."

It has enviable brands, such as Lemsip, Dettol, Lysol and Gaviscon, and 70 per cent of turnover comes from products with number one or two market positions.

But another analyst says: "Companies are not making bids in this sector. Prices are too expensive – they can't make the deals work. That is why Unilever has not spent its money."

Reckitt's statement on Tuesday still talked optimistically of the "next phase of growth".

But it may be a while before that becomes apparent to either shareholders, or potential bidders.



Gartland puts listings on hold

By Susanna Voyle

The parlous state of the UK smaller companies sector was underlined yesterday when Gartland, Whalley & Barker, the industrial development group, said it was putting on hold its strategy of listing the businesses it nurtures.

GWB, which was forced to delay two listings last year after falls in world stock markets, will instead fatten up its interests for sale to venture capital groups.

Tony Gartland, the former FKI executive who set up GWB in 1989, said he would prefer to be able to stick to the policy of listing companies. He still hoped that the market would turn, at which point the group would return to that strategy.

Shares in GWB fell 11 per cent to 95p.

According to one estimate, shares in small companies underperformed the FTSE All-Shares index by 17.8 percentage points last year – their third worst performance in 44 years.

Mr Gartland said market conditions were cyclical and smaller company values should come back – but the group had to have a strategy in case they did not.

GWB, which is listed on Aim, has specialised in acquiring small industrial businesses which it develops and groups in niches before listing. That strategy, which was based on a six-year exit programme, aimed to increase the value of its initial investment fivefold.

Mr Gartland said the group would now seek to operate on a three or three-and-a-half-year basis and drop its number of businesses from six to four. It would also consider expanding more into Europe. Previous expansion has been focused on the US.

GWB estimates that it should be able to grow businesses with an earnings before interest multiple of 5 to a multiple of 6.5 before selling out to venture capitalists.

GWB has suffered the effects of the depressed market itself, with the value of its quoted portfolio – in industrial components group Cirqual, Aquarius Group, which makes home improvement products, and training and recruitment group Quantica – falling.

But Mr Gartland said that in the year to October 31 GWB had realised a total return on net assets of 12 per cent – against a fall of 12.5 per cent in the small cap index.

Turnover rose from £55m to £96.9m. Pre-tax profit was 17 per cent higher at £24.2m.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Gartland Whalley ϕ	Yr to Oct 31	96.9	(55)	24.2	(20.7)	17.84	(16)	2.8	Apr 14	1.2	5.6	2.4

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Gartmore Fledgling	6 mths to Dec 31	105.9	(136.7♦)	0.167	(0.321)	0.47	(0.9)	0.4	Mar 26	0.4	-	1.8§
NatWest Smaller	6 mths to Dec 31	152.83	(196.9♦)	1.07	(0.639)	2.16	(1.34)	1.125	Mar 31	1.125	-	3.125

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ϕAim stock. ♦At June 30. §For 18 months.

EURO PRICES

EQUITIES

Bourses slip on interest rate caution

EUROPEAN OVERVIEW

By Vincent Boland

European stock markets suffered more modest losses yesterday as investors continued to take profits.

Much of the day was spent central bank-watching – the US Federal Reserve's open market committee was holding its meeting late in the day, with little expectation of a cut in interest rates.

Dealers said US economic growth looked too strong to cut rates now, while the European Central Bank was also expected to leave euro-zone rates unchanged. The Bank of England's monetary policy committee is also pondering interest rates, with any decision being announced today.

With so much pending, equity market activity was somewhat subdued, offering investors a chance to take stock. The strategy team at Salomon Smith Barney noted that return on equity among euro-zone companies was "still too low" and that the restructuring wave now gathering pace was the key to boosting returns.

Higher returns on assets, lower interest expenses and taxes and more efficient use of capital would all help boost ROE. "Dramatic mega-mergers grab the headlines, but evidence of steady, cumulative progress in this direction by mainstream euro-zone companies is just as important in maintaining investor confidence in equities at their current valuation levels," the bank said.

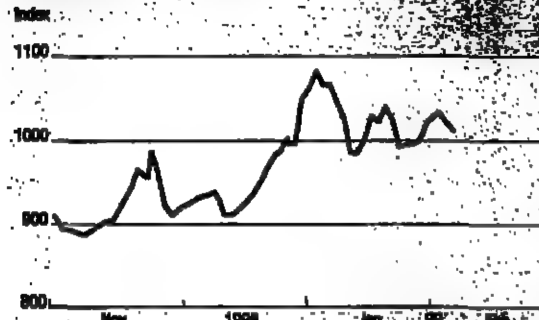
The FTSE Eurotop 300 index of leading shares fell 15.54 to 1,209.16, while the FTSE Eurotop 100 index fell 42.44, or about 1.5 per cent, to 2,768.81. The FTSE Ebloc 100 index of euro-zone shares fell 11.78 to 1,011.70.

Some sectors went against the generally weak trend, and construction and leisure stocks posted gains of 1.7 and 4 per cent respectively. Saint Gobain rose €5.20 to €137 and Bouygues was up €4 at €239.

BMW, down €6 at €620, was unsettled by reports that its chief executive was about to be forced to fall on his sword over Rover, its troubled UK subsidiary. Peugeot also tumbled €10.60 to €133.60 as profit-takers booked good recent gains.

Banks continued to be the focus of merger talk. AIB shed 80 cents to €17.40, giving up some of the strong gains it has seen since late last week on rumours it was being eyed by a big European bank. Bank of Ireland rose 80 cents to €20.80.

FTSE Ebloc 100



Source: FTSE International

FTSE Actuaries Share Indices — European series

THREE MONTH EUROMARK FUTURES (LIFFE)

THREE MONTH EURO LIBOR FUTURES (LIFFE)

THREE MONTH EURO LIBOR OPTIONS (LIFFE)

FTSE EUROTOP 100 INDEX FUTURES (LIFFE)

EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX)

OTHER INDICES

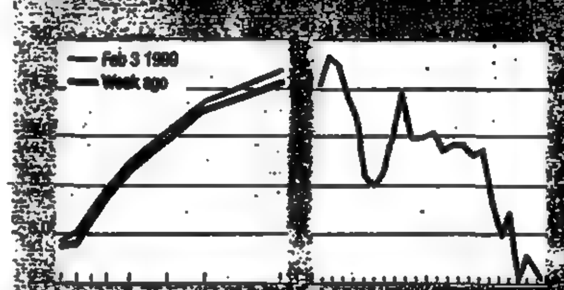
FTSE EUROTOP 300

CURRENCIES & MONEY

EURO SPOT FORWARD AGAINST THE EURO

BONDS

INTEREST RATE SWAPS



EURO-ZONE BONDS

CONTRACTS & TENDERS

The shift tha

RETAIL INVESTORS

Consumers take a cool view

JAPANESE INVESTORS

The shift that is tantalising Tokyo

Institutions are showing a keen interest in the new currency, but remain underweight compared to dollars, finds **Naoko Nakamae**

When Nomura Securities held a seminar on the euro in Tokyo last week, it only expected around 80 investment professionals to turn up. In the event, though, the seminar was packed. And though Nomura asked the French Treasury at short notice to supply a speaker, the Treasury managed to send the head of the cash and debt management bureau to Tokyo.

This underlines a surge of interest in the euro among Japanese institutional investors, but the question now is whether this translates into material investment in the new currency. Indications are that there is a potentially enormous market for euro-denominated bonds in Japan, but in practice it may take some time to fully tap into it.

There appear to be some strong reasons why Japanese investors, traditionally overweight in dollars, could be attracted to the euro.

"Generally speaking, our clients – both institutional and retail – are keen to increase their exposure to the euro," said Hiroshi Toda, head of the global debt market division at Nomura Securities. "The interest rate differential has forced our clients to invest internationally, and they have increased their US dollar-denominated holdings for the past 10 years. So it's been nice [for them] to find a second currency with liquidity equal to the dollar."

Furthermore, though Japanese investors have been reluctant to grapple with multiple European currencies in the past, the euro attracts them by its simplicity. "Before the advent of the euro, Japanese clients were shy about investing in Europe. [They felt] it was complicated – what with different currencies, different market practices, and different levels of liquidity. That's why the euro is so welcome," Mr Toda adds.

"The euro is perceived as a steady currency," echoes Yukihiko Hashimoto, senior manager of trading at Sanwa Bank. "It's also a liquid market; and expectations that the short-term bond market will continue to be improved have made the euro market very attractive. The interest rate cut by the Bundesbank late last year also helped."

This logic has led some Japanese institutions to move their money. Last year saw large investment in euro-equivalents by Japanese institutions.

But though these flows are striking, the uncertainty now is whether they will lead to a flood. Nomura admits, for example, that Japanese investors are still underweight in euros compared to dollars. And some observers suspect that this will remain the case for some time.

"The European market still lacks the depth of the US market," said Masao Hasegawa, chief manager of the securities investment division at the Bank of Tokyo-Mitsubishi. "I'm concerned that this could lead to higher volatility in the future. I don't see the euro overtaking the dollar – I think Japanese investors will still hold larger amounts of dollar-denominated assets."

Such reactions have been mirrored in the insurance industry, where reaction to the euro has been mixed. The movements of the life assurers are particularly significant because they are among the world's largest institutional investors, controlling some Y190,000bn of assets. While many are still wary, most are, nevertheless, shifting their international portfolios to reflect the enhanced importance of the new market.

Nippon Life, the world's largest life assurer with Y40,000bn (£209bn) of assets said it would substantially increase its exposure to the euro government bond market this financial year. It currently invests Y4,000bn in overseas markets, of which 70 per cent is in dollar-denominated assets, and 30 per cent in euro-based assets.

Nippon Life, which increased its overseas investment by almost Y600bn in the first half of the fiscal year, said approximately 90 per cent of this was invested in European government bonds.

"We use the Salomon World Government Bond Index, where the US and euro markets have approximately an equal weighting, as an internal benchmark for our overseas bond investments. [Instead of being considerably overweight in the US,] it would be more natural for us to be in line with the benchmark," said Kiyoshi Ujihara, general manager of the international investment department at Nippon Life.

> 'The European market still lacks the depth of the US market'

Dai-ichi Mutual, Japan's second largest life insurer, which is adopting a more cautious stance towards the euro, said that half its new overseas investment this financial year had been in German government bonds. If the current pace of investment into euro-based assets was to continue, it said its US and European holdings would be equal in about five years' time.

"We would like to see how countries pursue individual economic policies as they cede control of interest rates to the ECB. We are also concerned about European banks' exposure to the Russian, Asian and Latin American stockmarkets, and the lack of a rescue mechanism within the ECB," said Shigeo Tsuyuki, general manager of the investment planning division at Dai-ichi Mutual.

"We are also waiting to see if and when the UK will join the euro. Our investment views would change considerably should the UK enter the single currency," he added.

Taiyo Mutual's president, Masahiro Yoshiike, echoed his caution. "We would like to see how things develop before making any drastic changes in our portfolio," he said. In contrast, Chiyoda Life said that it expected euro-denominated bonds to outperform US bonds, and would continue to take an overweight and long duration position in euro bonds.

Tokio Marine and Fire, Japan's largest property and casualty insurer said its fun[illegible] investment stance had not been affected by the launch of the single currency. "At the moment our international bond portfolio is 70 per cent Europe and 30 per cent US. A year ago, our US holding was larger. But this is because, right now, Europe has a steeper yield curve than the US and we believe there is some room for it to flatten – not because of the new currency," said Mr Shingo Toda, a manager in the global investment department.

But a factor that could restrain Japanese investors – in addition to their famed caution towards new products – is that currency and bond fundamentals are discouraging Japanese investors from venturing overseas.

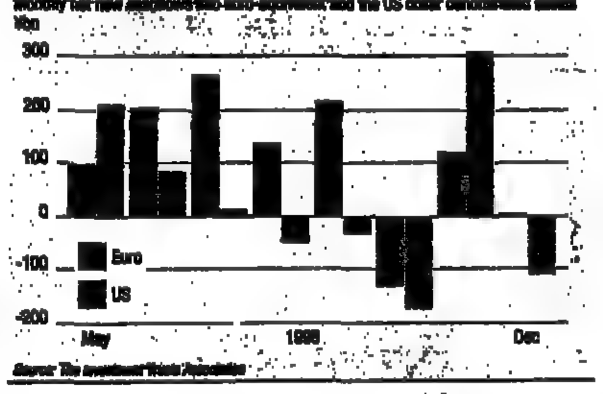
"Last year, most of the new investment and redemptions from US Treasuries were flowing into Europe. Euro investment almost doubled between March and September last year. You could say there was a boom in ecu products," said Mr Hashimoto. But the sharp appreciation of the yen from October definitely dampened the enthusiasm. Because the rise was so sudden, a lot of positions weren't hedged, and so many investors were hurt. There is still a lot of concern that the yen will rise further, and euro investment has tailed off dramatically."

Clifford Shaw, president of Merrill Lynch Mercury Asset Management in Tokyo, says: "There has been an increase in the awareness of danger of investing overseas. Until this period of uncertainty goes [the end of the fiscal year], Japanese investors are likely to remain lukewarm towards the euro."

Nevertheless, the euro-optimists are not giving up – not least because currency swings could still be reversed. And in the meantime, they point out that the Japanese are still keen to learn about the euro. "We've been travelling around Japan and giving talks on the euro," said Leonidas Karapiperis of the European Commission in Japan. "There's been lively interest from regional associations, such as regional banks and local businessmen, as well."

Media blitz: one of the ads to herald the euro Shinzo Kambayashi

Japanese investment



RETAIL INVESTORS

Consumers take a cool view

The euro may be mesmerising capital markets in Frankfurt this winter. But in downtown Tokyo this week it was provoking barely a flicker of interest among retail investors. Although the Japanese population is sitting on one of the largest savings pools in the world, so far it seems to be confused rather than thrilled by the new currency.

"I don't understand it," says one elderly man in Otemachi, the heart of Tokyo's financial district, where a clutch of Western and Japanese brokers are now scrambling to tempt consumers to place their money in the new mutual funds. "I don't have any interest in it – and won't be investing in it," echoes Masashi Miura, a 20-year-old cook.

These responses will disappoint those who have been working to promote the euro. The currency's launch was greeted in Japan with a blitz of publicity. "Media coverage has been overwhelming," said Leonidas Karapiperis, head of press and information at the delegation of the European Commission in Japan. "There were numerous specials on the euro in the run-up to and after the launch. What's more, they'll be showing five-minute clips on the euro on six giant screens across Japan every hour for the next month or so."

But behind the hype, the reality is that even the financial institutions are not going full throttle at individual investors yet. Although there are some pamphlets promoting euro-denominated money market funds in Otemachi's brokers, there are few prominent displays on the euro. "There are very few euro-products for retail investors to buy at the moment," explained Clifford Shaw, president of Merrill Lynch Mercury Asset Management in Tokyo. "They'll start being rolled out in the next few months."

And fund managers admit that fighting Japanese consumers' famed conservatism could be an uphill battle. For even those consumers who are interested in the single currency are treating it with caution. "I don't have any intention of putting money into the euro as yet. I think it may become the second most important currency after the US dollar, but it has to establish itself first," said one woman working in the real estate business.

"It's a great thing that all these European countries have come together and created a single currency. Personally, I think it will make travelling in Europe a lot more convenient. But I don't think I'll be investing in the euro yet. It's still at the beginning of its life and that's worrying," said Mr Kobayashi, an office worker.

And some consumers are also nervous about the European economy. "I think it will be dangerous to invest in the euro at the moment because the European economy is going downhill," says Mr Ohnishi, an independent businessman. "The euro made a strong start – but it's fallen off against the dollar and the yen. I don't think it's a good idea to be taken in by all the hype – it's better to take a cool view of things."

Naoko Nakamae

Rabobank to revamp equities business

By Clay Harris, Banking Correspondent

Rabobank International, the Dutch bank's wholesale banking arm, yesterday announced a reorganisation of its international equities business which ends the autonomy of a fledgling London-based operation.

It also firmly ruled out proprietary trading. "Trading activities for the bank's own account and risk are no aim in itself," the Utrecht-based bank said.

The London operation and Rabo Securities in Amsterdam will be integrated into Rabobank International Equities, to be headed by Andries Mak van Waay, Rabo Securities chairman. The unit will be brought under Rabobank's corporate finance arm.

The move, which will cost 10 jobs in equities trading in London, may be interpreted as the first retreat by any of the handful of international investment banks that have tried to build London operations from scratch in recent years.

Rabobank said, however, the integrated equities business would continue to expand at a "controlled speed", with its next move planned into New York.

London would remain the base of the pan-European research teams in Rabobank's specialist sectors: food and beverages, health and pharmaceuticals and "first class financials".

The London equities operation will employ 30, against 145 in Amsterdam. The departures in November of Marcus Grubb, head of equity brokerage, and Charles Giessen, global business manager, gave early warning of the shake-up.

Fed news fails to impress

BENCHMARK BONDS

By Arkady Ostrovsky in London and John Labate in New York

European markets were lower yesterday while US Treasuries were mixed in early afternoon trading as the Federal Open Market Committee decided to leave interest rates unchanged despite strong economic growth. The benchmark 30-year bond was $\frac{1}{32}$ higher at $100\frac{5}{32}$, sending the yield lower to 5.239 per cent.

The 10-year note fell $\frac{1}{32}$ to $99\frac{3}{16}$, yielding 4.806 per cent and the two-year note was unchanged at 99¾, yielding 4.7 per cent.

Analysts said the Fed fought shy of a sudden change in interest rates, given the fragile state of emerging markets.

The US Treasury caught traders by surprise, saying it would auction $35bn of notes and bonds next week. The Treasury said it would auction $15bn in five-year notes, $10bn in 9¾-year notes, and $10bn in 30-year notes.

"They are concerned that trading in the 10-year note has become scarce in the repo market, so they want to alleviate that by reopening the 10-year note," said Kevin Logan, senior market economist at Dresdner Kleinwort Benson in New York.

The Treasury decided to issue a new bond rather than reopen the current 30-year and said two- and 30-year auctions may become less frequent.

European bond markets sold off in expectation of today's meeting of the European Central Bank, which will determine interest rates in the euro-zone. Most analysts doubt the ECB will cut interest rates.

David Knott, at Deutsche Bank, said the markets had been too optimistic by pricing in two interest rate cuts by September.

Germany's 10-year bond future fell through the 117 level, closing 0.44 down at 116.75. UK gilts took their cue from euro-zone countries. The 10-year gilt future dropped 0.46 closing at 119.43. Most observers expect the Monetary Policy Committee to cut interest rates by 25 basis points.

Yields on Japanese government bonds continued to climb but at a slower pace. The yield on the benchmark 10-year 203 bond rose slightly to 2.335 per cent.

Mr Knott argued that provided short-term interest rates stayed unchanged at 0.5 per cent and acted as an "anchor" to the yield curve, 10-year JGB yields were unlikely to rise much higher.

He likened Japan to the US in 1993, when the Federal Reserve lowered interest rates and let the curve steepen. This allowed US banks to recapitalise by borrowing short-term money at low rates and lending it longer term at higher rates.

Fannie Mae launches $4bn issue

NEW ISSUES

By Khozem Merchant

Fannie Mae, the US mortgage lender, brought the dollar issuance market to life again with a bumper $4bn bond, its second issue of that size this year.

After a busy start to the year, the dollar market has been quiet recently, unnerved by Brazil. Dollar funds have been building up in the lull, say bankers. With Brazil quieter, swap spreads have tightened on all maturities, reflecting a calmer investment community.

Fannie Mae was planning an issue of $3bn-$4bn but went to the limit because of strong demand, said Lehman Brothers, joint leader manager with Credit Suisse First Boston and Merrill Lynch. The five-year bond was priced to yield 44.5 basis points over US Treasuries and traded unchanged.

Alcatel Alsthom provided further evidence of the strong appeal of a top corporate name when the French telecommunications equipment group launched its debut issue in euro. The €1bn offering was four times greater than when it last tapped the market in 1997. Yesterday's 10-year bond was priced to give a spread of 58 basis points over the OAT and 65.6bp over bunds.

Bankers said Alcatel was keen to take advantage of low yields to lock in cheap funding costs. The group had recently made an acquisition in the US, and was encouraged by US investor response. Most of the paper went to European buyers, notably Italian investors.

DSL Bank continued the trend yesterday with a 10-year $500m bond. The German bank, 50 per cent owned by the government, is an active lender to public infrastructure projects. Yesterday's offering was priced at 70 basis points over Treasuries and tightened narrowly. Last month DSL launched a five-year $500m bond priced at 65 basis points over Treasuries, which has tightened by 10 basis points.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Fannie Mae★	4bn	5⅛#(a)	99.885	Feb 2004	0.10	+44½(Nov03)	CSFB/Lehman/Merrill
BankAmerica Corp	1.5bn	5⅝#(f)	99.319R	Feb 2009	0.65R	+117(Nov08)	Nationsbank Montgomery
DSL Bank	500	5.50	99.324R	Feb 2009	0.325R	+70(4¾Nov08)	Nomura/Salomon SB
Delta Electronics(b)§	120	(½-1)	100.00	Feb 2006	2.50	-	Warburg Dillon Read
EUROS(e)							
Alcatel Alsthom	1bn	4.375	99.663R	Feb 2009	0.35R	+66(3¾Jan09)	BNP/Deutsche Bank
Aries Funding Corp II(c)‡	150	(c1)	100.00	Feb 2005	0.25	-	IBJ International
Inter-American Dev Bank(d)‡	100	(d1)	99.75r	Mar 2014	0.25r	-	Mediobanca/Salomon SB
European Inv'ment Bank(f)	100	7.00	101.875	Mar 2006	1.875	-	ASLK-CGER
STERLING							
Helaba Intl Finance(g)	75	5.00	99.68R	Feb 2002	0.20R	+58(7%-02)	Greenwich NatWest
GREEK DRACHMA							
Helaba Finance NV	10bn	[illegible]	99.92R	Feb 2002	0.20R	-	Salomon/Unicredito

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ★Unlisted. §Convertible. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Long 1st & short last. b) Fixing by 9/2/99. Indicated conversion premium: 5-10%. Puttable on 23/2/02 and 04 to yield Treasuries +75bp & 125bp. Callable from 23/2/00 at 5-yr accreted value. Greenshoe: $20m. c) Secured on auto loans originated by Nissan Credit Corp. Average life: 1.2 yrs. c1) 1-mth Euribor +47bp. d) Callable. d1) 14.75% in yr 1, 4% in yrs 2-5, then 7% - 12-mth Euribor. e) Spread relates to German govt bonds. f) €100m launched on 26/1/99 increased to €200m. Redemption linked to loss in Dow Jones Euro Stoxx 50 index; max per. g) £125m launched 28/1/99 was increased to £200m. i) Long 1st coupon. r) Recommended reoffer.

US fund managers lead field in Europe

By Charles Pretzlik

US institutional investors dominate the ranking of European fund managers in the latest Reuters survey of European larger companies.

Four of the five top fund managers in Europe are US firms, according to a survey of finance directors from 244 of Europe's largest companies. Fidelity Investment Management is ranked highest. Schroder Investment Management is the only European fund manager in the top five.

US houses also occupy four of the top five positions for overall research from brokers. Companies questioned in the annual survey rank Merrill Lynch first. Warburg Dillon Read is the only European house in the top five.

The survey, conducted by Tempest Consultants, the management consultants, also concludes that European equity markets need reforming to prevent companies moving to "more efficient" markets.

"Unless the central authorities move now to ensure a near perfect flow of financial information and corporate disclosure, without coherent regulation and transparency, then there are serious risks," the survey says.

However, it adds that the European equity market could grow in value from $5,957bn to more than $17,000bn by 2005. "In part, this is due to a growing awareness of the opportunities for growth in European equity markets," the survey says. Europe already represents 31 per cent of global market capitalisation.

The survey also predicts further consolidation among brokers.

Shift of focus sparked by launch of euro

By Khozem Merchant

The Australian, New Zealand and Canadian dollars are likely to be strong beneficiaries of last month's launch of the euro, say bank officials. Investors within the euro-zone are expected to diversify their holdings having lost such opportunities within Europe since the launch of the euro.

The launch of a NZ$500m bond by the Inter-American Development Bank this week – the IDB's largest non-US dollar offering – is the latest sign of the strength of demand for peripheral currencies in the aftermath of European monetary union.

The Royal Bank of Canada, a leading underwriter in peripheral currency bonds, says last month was one of the busiest in recent years. "We have had a huge rush in January, handling some 28 bond issues," said Geraud de Nadaillac, head of global syndication at RBC Dominion Securities.

Apart from the so-called "dollar bloc" currencies, the leading peripheral currencies are the Greek drachma, the South African rand and the Czech koruna.

Issuance of paper in these and the dollar bloc currencies last month was US$2.8bn – 2 per cent of overall international bond issuance. The dollar and the euro accounted for nearly 90 per cent.

Attention has focused on the Greek drachma. Fifteen bonds totalling $1.17bn were issued. Investors think Greece will qualify for the next round of Emu and have bought drachma offerings in the expectation that domestic yields will converge with Emu entry levels. Similar factors have fuelled interest in the Czech koruna.

A large proportion of peripheral currency bonds mature in the first quarter of 1999. Much of these redemptions are reinvested in new offerings.

David Fry, head of origination and syndication at TD Securities, says investors holding currencies that have depreciated have an incentive to reinvest in that currency in the hope their losses will be eliminated.

In the euromarkets, an estimated Dr12bn will be redeemed in February and Dr24bn in March. The rand saw redemptions totalling R1.3bn in January and R850m this month. Redemptions of Canadian dollar paper this month will total C$600m and C$700m next.

Strong reinvestment flows are expected from maturing Australian dollar paper after redemptions in January of A$300m and A$600m this month.

Last month only NZ$150 was redeemed, a similar amount this month and NZ$400m in March. Mr Nadaillac says the high interest rate differential between the NZ and US dollar will encourage investors to buy NZ paper. An added attraction is the likelihood that NZ rates will fall.

New money also appears to be flowing into the euro-convergence markets, notably in Greek drachma bonds. Before the launch of the euro, many large institutional investors could only hold a maximum of 20 per cent in securities denominated in non-domestic currencies.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Feb 3	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	01/01	8.750	107.0724	4.86	+0.15	+0.07	+0.25	-0.41
	09/08	8.750	125.8718	5.28	+0.15	+0.18	+0.28	-0.72
Austria	07/00	5.875	103.9000	3.05	+0.02	+0.08	-0.15	-1.05
	01/08	5.000	107.9800	3.82	+0.04	+0.11	-0.01	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

London closing. * New York mid-day. Yields: Local market standard/annualised yield basis. Source: Interactive Data/FT Information.

10 YEAR BENCHMARK SPREADS

[illegible]	[illegible]	[illegible]	[illegible]

EMERGING MARKET BONDS

[illegible]	[illegible]	[illegible]	[illegible]

London closing. Prices in US$. Standard & Poor's ratings.

BOND FUTURES AND OPTIONS

France

NOTIONAL EURO BOND FUTURES (MATIF) €100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	112.63	112.39	-0.24	112.88	112.11	44,069	89,361

LONG TERM EURO BOND OPTIONS (MATIF)

[illegible]	[illegible]	[illegible]	[illegible]

Germany, Italy, Spain, UK, US, Japan, Euro

[illegible]	[illegible]	[illegible]	[illegible]

US CORPORATE BONDS

Feb 2	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs Bonds
UTILITIES								
Pac Bell	07/02	7.25	AA-	105.8802	[illegible]	[illegible]	[illegible]	[illegible]
NY Tel	06/25	7.00	A+	102.2322	[illegible]	[illegible]	[illegible]	[illegible]
CME	05/08	8.00	BBB	115.1206	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

US rated, Standard & Poor's ratings. Yields: local market standard. Source: Interactive Data/FT Information.

US INTEREST RATES

[illegible]	[illegible]	[illegible]	[illegible]

INTERNATIONAL BONDS

[illegible]	[illegible]	[illegible]	[illegible]

London closing. Standard & Poor's ratings. Yields: Local market standard/annualised basis. Source: Interactive Data/FT Information.

UK BONDS

FTSE Actuaries Government Securities — UK Indices

[illegible]	[illegible]	[illegible]	[illegible]

FT Fixed Interest Indices

[illegible]	[illegible]	[illegible]	[illegible]

UK GILTS PRICES

[illegible]	[illegible]	[illegible]	[illegible]

Other Fixed Interest

[illegible]	[illegible]	[illegible]	[illegible]

CURRENCIES & MONEY

Intervention rumours halt yen rally

MARKETS REPORT

By Florian Gimbel and Richard Adams

The yen's rally on the back of rising Japanese government bond yields was halted yesterday, because of rumours over intervention by the Bank of Japan.

The Japanese government continued to neglect the rising yields on its government bonds, but the Ministry of Finance made it clear that excessive yen strength was undesirable.

"The markets wanted to test the Bank's tolerance of a quickly appreciating yen," said Brian Martin, currency strategist at Barclays Capital in London. The yen strengthened marginally from Y112.6 on Tuesday to Y112.3 versus the dollar in London. Against the euro, the yen gained Y0.4 to Y127.4.

The dollar was little changed after the widely-expected decision by the Federal Reserve's Open Market Committee yesterday, which left US short rates on hold.

In London, mixed expectations over the Bank of England's interest rate decision announced today led to nervous trading in short sterling future contracts.

■ As the yen continues to be buoyed by rising Japanese government bond yields, a debate has started over whether and how the Bank of Japan should intervene in the financial markets.

"The likelihood of intervention is very high because the government would certainly not want the positive impact of its fiscal package to be cancelled out by a stronger yen," said Brian Martin of Barclays Capital.

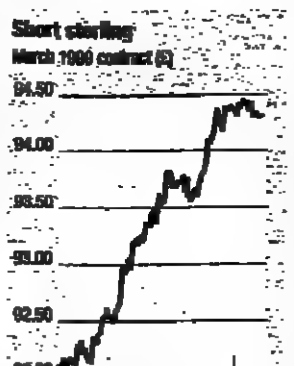
But he said a successful intervention required a clear policy to protect the desired exchange rate. "The Bank of Japan has either to lower interest rates, which is illusory, or start monetising the debt by directly underwriting government bonds."

Several Japanese officials have expressed their support for the idea of direct debt underwriting. But despite rumours that the bank is considering the option, some analysts were sceptical about its usefulness.

"A direct intervention by the bank in the bond market might be positive in the short-term, but it would certainly undermine the currency in the long-run," said Michael Lewis, senior economist at Deutsche Bank in London.

Debt monetisation would open the door to government spending, while removing pressure on banks and corporations to pursue restructuring, Mr Lewis said.

Short sterling
March 1999 contract (£)



Source: Datastream/ICV

■ Sterling interest rate future contracts suffered a sell-off despite two key pieces of gloomy economic news that showed weak activity in the UK economy.

With the Bank's monetary policy committee announcing its lastest interest rate decision today, the contract for March delivery was alone in gaining in price during yesterday's trading. A sell-off in the June and September contracts of three basis points mimicked a larger five basis point fall in the December contract.

The front contract has priced in another 0.25 percentage point cut by the Bank, and partially anticipated the possibility of a further or deeper cut by March. But the June contract is still uncertain that rates will have gone as low as 5.25 per cent by the start of the third quarter.

Traders expect the strip to show little reaction to a 25 basis point cut by the committee, with only a 50 point cut or an unchanged base rate prompting any significant shifts.

Stuart Weatherby, UK economist at WestLB Panmure, noted that the shift in rate expectations has been very dramatic within the last six months, but that there was still value to be had in the June contract.

"As a year-end bull, I am a bit more optimistic on rates than the market," Mr Weatherby said.

■ Meanwhile, the steady ascent of the Swedish kronor against the euro ground to a halt yesterday, following a report by the European Commission that the kronor would have to join an exchange rate mechanism before entering the single currency.

The government's reluctance to accept this condition, ahead of a referendum on membership, prompted speculation that Sweden's entry into the single currency may be delayed beyond the 2002 target date.

■ POUND IN NEW YORK

Feb 3	—Latest—	— Prev. close —
£ spot	1.6375	1.6395
1 mth	1.6364	1.6387
3 mth	1.6347	1.6365
1 yr	1.6330	1.6350

■ OTHER CURRENCIES

Feb 3	£	$
Czech Rp	53.6971 - 53.7641	32.7840 - 32.8170
Hungary	[illegible]	[illegible]
Iran	4914.80 - 4912.80	3000.00 - 3000.00
Kuwait	0.4955 - 0.4959	0.3025 - 0.3027
Peru	5.5662 - 5.5768	3.3990 - 3.4040
Poland	[illegible]	[illegible]
Russia	37.9923 - 38.1734	23.3300 - 23.3600
U.A.E.	6.0146 - 6.0176	3.6726 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

Feb 3		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria*	(Sch)	19.8649	-0.0827	571 - 726	19.9288	19.8404	19.9666	2.5	19.8041	2.5	19.4674	2.3	102.8
Belgium*	(BFr)	58.2362	-0.2424	134 - 589	58.4180	58.1650	58.3585	2.5	58.1165	2.5	57.1597	2.3	102.7
Denmark	(DKr)	10.7380	-0.0452	304 - 416	10.7594	10.7204	10.7627	2.1	10.7261	2.0	10.5846	1.4	105.0
Finland*	(FM)	8.5835	-0.0358	801 - 868	8.6108	8.5720	8.6016	2.5	8.5659	2.5	8.4348	2.3	84.5
France*	(FFr)	9.4693	-0.0395	650 - 735	9.4993	9.4578	9.4896	2.5	9.4503	2.5	9.2946	2.3	105.1
Germany*	(DM)	2.8235	-0.0118	224 - 246	2.8326	2.8193	2.8295	2.5	2.8178	2.5	2.7713	2.3	103.6
[illegible]													

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Feb 3		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan Index
Europe													
Austria*	(Sch)	12.1270	+0.0081	257 - 280	15.1087	12.1129	12.1118	1.6	12.0736	1.8	11.8830	2.0	102.5
Belgium*	(BFr)	35.5543	+0.0288	420 - 808	35.6360	35.5100	35.5089	1.6	35.3945	1.8	[illegible]	2.0	102.6
Denmark	(DKr)	6.5545	+0.0045	525 - 565	6.5660	6.5484	6.5479	1.2	6.5318	1.4	6.4497	1.6	105.0
Finland*	(FM)	5.2404	+0.0088	395 - 413	5.2534	[illegible]	5.2334	1.6	5.2165	1.8	5.1348	2.0	80.6
France*	(FFr)	5.7814	+0.0043	[illegible]	5.7947	5.7743	5.7738	1.6	5.7554	1.8	5.665	2.0	105.5
Germany*	(DM)	1.7230	+0.0013	[illegible]	1.7279	1.7217	1.7215	1.6	1.7161	1.8	1.6891	2.0	103.3
[illegible]													

WORLD INTEREST RATES

MONEY RATES

[illegible]

INTERNATIONAL CURRENCY RATES

[illegible]

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

[illegible]

UK INTEREST RATES

LONDON MONEY RATES

[illegible]

EMS EUROPEAN CURRENCY UNIT RATES

[illegible]

Also traded on APT. All Open interest figs. are for previous day

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Mar	Jun	Sep	PUTS Mar	Jun	Sep
94250	0.165	0.465	0.585	0.035	0.045	0.065
94375	0.105			0.060		
94500	0.055	0.250	0.400	0.155	0.100	0.120
94625	0.025			0.250		
94750	0.010	0.150	0.330	0.360	0.210	0.210
94875	0.005			0.480		

Est. vol. total, Calls 16404 Puts 14695. Previous day's open int., Calls 508217 Puts 554234

BASE LENDING RATES

	%		%		%
Adam & Company	6.00	Exeter Trust Limited	7.00	•Singer & Friedlander	6.00
Allied Irish Bank (GB)	6.00	Financial & Gen Bank	6.00	Smith & Williamson	6.00
•Henry Ansbacher	6.00	•Robert Fleming & Co	6.00	Sun Bank	6.00
Banco Bilbao Vizcaya	6.00	Habib Bank AG Zurich	6.00	TSB	6.00
Bank of Cyprus	6.00	Heritable & Gen Inv Bk	6.00	United Bank of Kuwait	6.00
Bank of Ireland	6.00	C. Hoare & Co	6.00	Unity Trust Bank Plc	6.00
Bank of India	6.00	•SG Hambros Bank & Trust	6.00	Whiteaway Laidlaw	6.00
Bank of Scotland	6.00	Hongkong & Shanghai	6.00	Yorkshire Bank	6.00
Barclays Bank	6.00	Investec Bank (UK) Ltd	6.00		
Brit Bk of Mid East	6.00	Julian Hodge Bank	6.00	• Members of London Investment Banking Association	
•Brown Shipley & Co Ltd	6.00	•Leopold Joseph & Sons	6.00		
Citibank NA	6.00	Lloyds Bank	6.00		
Clydesdale Bank	6.00	Midland Bank	6.00		
The Co-operative Bank	6.00	NatWestminster	6.00		
Coutts & Co	6.00	•Rea Brothers	6.00		
Cyprus Popular Bank	6.00	Royal Bk of Scotland	6.00		
Duncan Lawrie	6.00	Scottish Widows Bank	6.75		

COMMODITIES & AGRICULTURE

Sharp rise seen in North Sea oil output

By Robert Corzine

Oil output from the North Sea is expected to grow strongly this year in spite of low crude prices, according to a new forecast by Wood Mackenzie, the Edinburgh-based industry consultants.

Total North Sea production this year is expected to average 6.81m barrels a day, a 13 per cent increase on the 6.02m b/d average for 1998. UK output is expected to rise by 14 per cent to a record 2.99m b/d, including 100,000 b/d from onshore fields.

Wood Mackenzie says upstream revenues from most UK and Norwegian fields "still exceed the marginal cost of production even at $10 a barrel". It said operators were keen to maximise output to boost cash flows, and doubts whether any North Sea fields will be shut down in the short term.

The slump in oil prices has caused some high cost production to be shut-in, especially in the onshore US, where the closure of low volume "stripper" wells is straightforward.

But the closure of offshore platforms would be complicated and costly. In addition, many North Sea operators have slashed operating costs in recent years. Shell, one of the biggest North Sea operators, says its operating costs in the UK are less than £2.50 ($4.12) a barrel. That is three times less than a 1990 estimate of what they would be for this period.

The Wood Mackenzie study suggests that much of this year's projected production growth will come from fields that have come onstream since 1996 and that are approaching full or plateau production.

● A separate Wood Mackenzie study shows that oil demand in western Europe is likely to remain flat to 2005, with average annual growth rates of 0.6 per cent.

LME outlines plan for new silver contract

By Paul Solman

The London Metal Exchange will launch its new silver contract by mid-year at the latest.

Announcing details of the contract yesterday, the exchange said it would complement rather than compete with existing contracts.

"Silver is often a secondary metal, produced alongside a main metal, and we believe base metals producers will welcome an opportunity to trade it in a market that offers excellence in transparency and regulation," Jonathan Haslam, LME director of corporate affairs, said.

Spot silver is traded on the London Bullion Market, while futures are traded on Comex, part of the New York Mercantile Exchange.

Mr Haslam added that the LME's experience in base metals trading made it an obvious home for a silver contract.

Though traditionally regarded as a precious metal, silver is increasingly seen as an industrial metal for its uses in photographic film and paper and electrical and electronic components.

The LME's existing contracts include copper, nickel, aluminium, lead, zinc and tin as well as aluminium alloy. It has also announced plans to launch a contract based on a weighted index of its six base metals.

"Interest may well come from industrial traders initially, though we recognise that some people trade silver as an investment and we believe our contract will prove attractive to them as well," Mr Haslam said.

However, some analysts questioned the need for another silver contract.

"Those who need physical metal can get it from the spot market in London, while those who want futures can use the Comex," one said yesterday.

Another suggested that traders who bought and sold silver as an investment preferred over-the-counter deals, which were not subject to a formal regulation.

Mr Haslam said: "We believe our contract offers something new and that we can offer added value such as our established global delivery points."

The London Bullion Market Association said it saw no threat to its spot silver market, and added: "We think that anything that adds liquidity to the market is a good idea."

The LME's plan includes allowing silver granules to be delivered against the new contract from October in addition to silver ingots. The silver will be 99.9 per cent pure and traded in lots of 5,000 troy ounces. This is the exchange's second attempt at making a silver contract work. A previous attempt was killed off in 1989.

Nickel maintains upward trend

MARKETS REPORT

By Paul Solman and Robert Corzine

Nickel prices strengthened on the London Metal Exchange again yesterday, though analysts said the rise was largely speculative.

The market is expected to remain oversupplied this year, though some analysts have suggested consumption could rise by as much as 5 per cent, especially on the back of a stronger US economy. Producers, including Inco of Canada, are also rumoured to be considering output cuts.

Three-month nickel closed yesterday at $4,515 a tonne, a rise of $170 on Tuesday's close.

The LME's flagship copper contract also rose, closing up $12.50 at $1,456.50 a tonne.

Meanwhile, oil prices received a late boost yesterday when the United Nations announced it was withdrawing American and British members of its humanitarian aid programme in Iraq. Brent Blend for March delivery was up 34 cents to $11.19 a barrel in late trading on London's International Petroleum Exchange.

Earlier the markets found some solace in weekly figures from the US Department of Energy, which showed a more modest build-up of crude inventories than similar statistics from the American Petroleum Institute. The API figures suggested a 6.1m-barrel rise, but the Energy Department estimated the increase at 2.6m barrels.

On the London International Financial Futures and Options Exchange, the benchmark March contract for robusta coffee closed up $18 at $1,726 a tonne, while March cocoa scrambled back through £900 to end up £8 at £901 a tonne.

Production problems may halve Nalco profits

By Kunal Bose in Bhubaneswar

National Aluminium Company, Asia's largest integrated aluminium complex, should have its 230,000-tonne capacity smelter at Angul in Orissa back in full working order by the end of March.

The pots in the smelter started collapsing last April. Nalco's metal production fell to 99,523 tonnes in the first nine months to December 1998 against 146,702 tonnes in the corresponding period of 1997-98.

Although the pots are coming back into service at the rate of two to three a day, company officials say Nalco's production this year will amount to about 150,000 tonnes compared with the target of 221,700 tonnes and last year's output of 200,162 tonnes.

Morgan Stanley Dean Witter and ABN Amro believe metal production this year could be as low as 140,000 tonnes.

As production falls and aluminium prices stay flat, analysts say Nalco's net profits in the current year will be 40-50 per cent lower than in 1997-98.

"Unfortunately, this is happening at a time when Nalco is under pressure to fund the Rs37.26bn ($877m) expansion programme," says S.N. Johri, chairman of Nalco.

Warburg Dillon Read believes the company's net profits will fall from Rs5.470bn last year to Rs2.984bn.

The crisis has made the company aware of the need for periodic maintenance and enforcing "discipline" among workers.

"We are fast returning to normal production," Nalco says. "Next year we will be producing well over 200,000 tonnes of aluminium. Our alumina refinery continues to run efficiently. This year our alumina production will exceed the target of 885,000 tonnes. Since there is a big shortfall in metal production, our alumina export will be around 600,000 tonnes against 479,801 tonnes last year."

However, a metal analyst pointed out that Nalco never operated more than 430 pots at a time. Its record production of 203,823 tonnes in 1996-97 was far short of the smelter's capacity. There is considerable scope for improvement of operational efficiency at the smelter.

Nalco, which owns high quality bauxite deposits of 370m tonnes at Panchpatmali, is on target to double the mining capacity to 4.8m tonnes a year and to expand the capacity of its alumina refinery from 800,000 tonnes to 1.575m tonnes. The smelter capacity is to be raised from 230,000 tonnes to 345,000 tonnes.

The Nalco complex was set up with technologies from Aluminium Pechiney of France.

"As for our expansion, Aluminium Pechiney is making available to us the latest improvements in aluminium refining and metal smelting technologies," the company said. "We should be able to finance 70 per cent of the project cost from internal accruals. The balance is to be funded by debt."

Nalco has started adding value to the metal in the form of aluminium alloy strips, wire rods and billets to realise better prices.

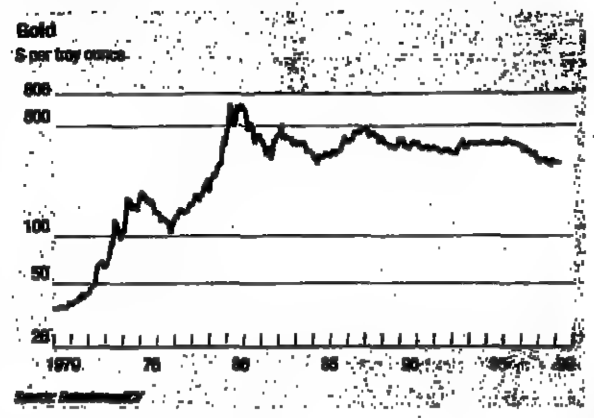
"The most ambitious value-added project will be an aluminium vehicle wheel plant, which will need an investment of Rs1bn," the company said.

"The plant will have capacity of 450,000 wheels a year and will need 10,000 tonnes of metal. We are negotiating with companies from France, Germany and South Korea for technology. But we will buy technology only from a company which is ready to buy back 50 per cent of the production."

INDABA MINING CONFERENCE CALL FOR BANKS TO SELL RESERVES

Plan to buoy gold price

By Gillian O'Connor, Mining Correspondent



Central Banks should be encouraged to sell off most of their gold reserves so that they cease to pose a threat to the gold price. Michael Coulson, head of global mining research at Paribas, floated this plan to the Investing in Africa Mining conference, Indaba 99, in Cape Town yesterday.

He argued that central banks were responsible for gold's poor performance in recent years, because of the way they have used their reserves in the derivatives market to provide cheap gold loans for producers.

"The gold mining industry has colluded in this by persistent forward selling capping the gold price at ever lower levels," Mr Coulson said. "The industry faces years of going nowhere unless it moves to neutralise central bank and other official gold holdings."

Mr Coulson suggested two ways of organising the sale: regular auctions or securitisation of the banks' reserves. He argued that, although the central banks are large holders, the market could absorb a staged straight sale of their holdings.

"While the announcement of such a programme would shake the gold market initially, we think that in time the market would come to terms with it," he said.

The aim would be to reduce official gold holdings by 75 per cent over 10 years, to a series of sales similar to those employed by the IMF and US Treasury in the 1970s. Indeed, the new round of sales might even be managed by the IMF.

Alternatively, and this is Mr Coulson's preferred method, gold bonds, redeemable into gold, would be sold under the aegis of the IMF.

The precedent for this is the successful French government bond, the Rente Giscard of 1973 to 1988, which was very popular.

In London, Andy Smith of Mitsui was wary of Mr Coulson's proposals. He argued that the central banks do not care enough to set the necessary auction mechanism in place; that it is difficult to see who the buyers would be; that the Giscard bonds were a special case; and that if there were really a market for gold-backed bonds, some commercial bank would have created them by now.

However, Mr Smith agreed with Mr Coulson that to have any hope of working, an auction scheme would have to be operated under the auspices of the IMF.

Some producers do not agree that central bank gold sales are a threat. "We no longer see them as an issue," said Bobby Godsell, Anglogold chief executive officer, shortly before Mr Coulson presented his proposals.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE (Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1229.5-10.5	1219-19.5
Previous	1205-6	1214-15
High/low		1221/1212
AM Official	1209-9.5	1219-19.5
Kerb close		1212.5-13.5
Open int.	270,135	
Total daily turnover	102,060	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1025-43	1058-60
Previous	1032-37	1053-55
High/low		1062/1057
AM Official	1040-43	1060-63
Kerb close		1056-57
Open int.	7,391	
Total daily turnover	4,716	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	495-6	495-9
Previous	494-95	497-98
High/low		498/497
AM Official	493-4	497-7.5
Kerb close		497.5-8
Open int.	34,736	
Total daily turnover	6,814	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	4440-50	4510-15
Previous	4270-80	4340-45
High/low		4570/4380
AM Official	4500-505	4555-60
Kerb close		4550-55
Open int.	70,747	
Total daily turnover	21,025	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5145-55	5120-30
Previous	5150-60	5135-40
High/low		5140/5125
AM Official	5150-60	5135-40
Kerb close		
Open int.	21,254	
Total daily turnover	3,690	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	976-7	993-4
Previous	978.5-9.5	993.5-9.0
High/low		996/990
AM Official	979.5-80.0	995-7
Kerb close		991-2
Open int.	93,523	
Total daily turnover	17,086	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	1427.5-28.5	1455.5-56.5
Previous	1415-16	1443-44
High/low		1460/1440
AM Official	1420-20.5	1447-48
Kerb close		1453-54
Open int.	172,810	
Total daily turnover	50,702	

■ LME AM Official £/$ rate: 1.6362
LME Closing £/$ rate: 1.6395
Spot: 1.6328 3 mths: 1.6351 6 mths: 1.6337 9 mths: 1.6334

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Feb	64.45	-0.05	65.30	64.45	342	1,816
Mar	64.80	-0.05	65.80	64.35	5,173	42,812
Apr	65.05	-0.10	65.15	65.05	9	2,086
May	65.30	-0.10	66.00	65.65	661	7,133
Jun	65.90	-0.10	66.65	65.90	60	1,474
Jul	66.30	-0.10	67.20	66.00	317	6,642
Total						73,841

PRECIOUS METALS

■ LONDON BULLION MARKET (Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	286.60-287.10		
Opening	288.70-289.10		
Morning fix	287.55	175.50	253.68
Afternoon fix	286.85	175.14	232.84
Day's High	288.70-289.10		
Day's Low	286.50-286.90		
Previous close	288.20-288.70		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.03	6 months	[illegible]
2 months	[illegible]	12 months	3.49
3 months	[illegible]		

Silver Fix	p/troy oz.	US cts equiv.
Spot	338.83	554.00
3 months	[illegible]	[illegible]
6 months	[illegible]	[illegible]
1 year	[illegible]	[illegible]

Gold Coins	$ price	£ equiv.
Krugerrand	290-294	177-179
Maple leaf	[illegible]	[illegible]
New Sovereign	68-72	42-44

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Feb	288.0	-1.3	288.3	287.0	1,615	2,089
Mar	288.5	-1.4	-	-	-	2
Apr	289.3	-1.4	291.1	288.0	35,689	98,347
Jun	291.2	-0.0	292.8	290.0	634	25,107
Aug	293.1	-1.4	293.2	292.5	435	5,735
Oct	294.9	-1.5	293.0	294.7	1	2,796
Total					39,948	181,282

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	354.0	-0.7	357.0	353.5	1,974	10,961
Jul	357.5	-0.7	358.0	358.0	93	1,304
Oct	360.8	-0.7	-	-	20	1,081
Total					2,087	13,428

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	351.25	+10.25	352.00	338.00	100	2,472
Jun	344.00	+8.25	335.00	335.00	5	187
Sep	340.00	+8.25	-	-	1	127
Total					109	2,887

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Feb	554.5	+8.2	-	-	289	276
Mar	554.2	+7.5	556.6	541.0	23,767	49,459
May	555.4	+7.0	558.5	543.5	2,510	14,003
Jul	555.7	+8.5	560.0	548.0	1,040	10,316
Sep	556.6	+8.5	-	-	960	3,932
Dec	558.2	+5.8	560.0	546.0	281	6,430
Total					34,877	89,794

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Mar	12.55	-0.25	12.69	12.11	46,222	104.6k
Apr	12.67	-0.26	12.87	12.25	20,624	55,217
May	12.78	-0.25	12.98	12.37	6,446	44,872
Jun	12.90	-0.24	13.06	12.58	4,614	36,330
Jul	13.04	-0.26	13.25	12.71	3,332	33,508
Aug	13.09	-0.05	13.12	12.87	1,172	18,652
Total					94,723	501,769

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Apr	11.19	+0.34	11.22	10.74	18,882	50,865
May	11.31	+0.36	11.32	10.84	12,194	50,887
Jun	11.45	+0.36	11.48	11.00	4,595	28,199
Jul	11.58	+0.31	11.56	11.17	1,359	30,801
Aug	11.41	[illegible]	[illegible]	[illegible]	[illegible]	10,982
Sep	11.57	-	11.60	11.57	[illegible]	11,011
Total						n/a

■ HEATING OIL NYMEX (42,000 US galls; c/US galls)

	Latest price	Day's change	High	Low	Vol	Open int
Mar	32.60	+0.45	32.95	31.90	13,259	48,397
Apr	33.25	+0.49	33.30	32.37	4,828	19,954
May	33.65	+0.49	33.85	32.85	2,154	14,145
Jun	34.50	+0.39	34.50	33.64	2,695	13,548
Jul	35.20	+0.39	35.20	34.35	1,848	10,412
Aug	35.35	+0.44	35.35	35.20	1,702	9,746
Total					31,576	154,459

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Feb	98.75	[illegible]	[illegible]	[illegible]	[illegible]	24,674
Mar	99.75	[illegible]	[illegible]	[illegible]	[illegible]	27,096
Apr	101.25	[illegible]	[illegible]	[illegible]	[illegible]	14,894
May	102.00	[illegible]	[illegible]	[illegible]	[illegible]	9,243
Jun	103.25	[illegible]	[illegible]	[illegible]	[illegible]	11,201
Jul	104.75	[illegible]	[illegible]	[illegible]	[illegible]	4,007
Total						20,087

■ NATURAL GAS IPE (10,000 therms; pence per therm)

	Sett price	Day's change	High	Low	Vol	Open int
Feb	9.400	+0.160	9.400	9.260	100	5,540
Mar	9.300	+0.090	9.300	9.200	100	3,260
Total					200	28,865

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

	Latest price	Day's change	High	Low	Vol	Open int
Mar	1.760	-0.056	1.825	1.750	31,812	52,397
Apr	1.805	-0.048	1.860	1.795	5,813	23,648
May	1.845	-0.033	1.877	1.830	3,046	15,305
Jun	1.875	-0.032	1.905	1.860	1,355	16,405
Jul	1.900	-0.032	1.930	1.890	665	13,792
Aug	1.930	-0.027	1.954	1.920	374	10,696
Total					54,671	269,154

■ UNLEADED GASOLINE NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Mar	37.35	-0.25	37.80	36.80	14,873	34,424
Apr	40.20	-0.02	40.40	39.70	3,943	20,566
May	41.00	-0.04	41.40	40.75	1,768	16,117
Jun	41.60	[illegible]	[illegible]	[illegible]	[illegible]	12,786
Jul	42.00	[illegible]	[illegible]	[illegible]	[illegible]	3,281
Aug	42.00	+0.01	-	-	-	1,970
Total						95,547

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	74.95	-0.55	75.60	74.90	223	1,022
May	75.90	-0.70	76.60	75.75	536	3,675
Jul	77.70	-0.60	78.25	77.70	47	749
Sep	77.50	-0.25	-	-	-	157
Nov	79.25	-0.25	-	-	-	1,700
Jan	81.25	-0.25	-	-	-	351
Total					806	4,994

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	268.75	-4.60	274.50	265.00	10,778	85,658
May	276.25	-4.50	284.50	276.00	4,040	10,037
Jul	285.25	-3.75	294.50	285.75	2,770	37,369
Sep	297.25	-3.25	304.50	296.25	106	3,310
Dec	310.25	-3.00	317.50	309.50	144	3,969
Mar	321.00	-3.00	-	-	1	40
Total					17,840	130,209

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	216.75	-1.75	[illegible]	215.25	37,552	155,560
May	221.75	-1.50	227.50	221.50	8,546	70,330
Jul	226.75	-1.25	[illegible]	[illegible]	7,263	72,965
Sep	233.00	-1.00	237.25	232.25	874	18,179
Dec	239.50	-1.25	244.50	239.25	[illegible]	41,737
Mar	247.50	-0.75	251.50	247.00	176	3,965
Total					[illegible]	360,136

■ BARLEY LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	78.25	-0.10	-	-	-	283
May	79.25	-0.10	-	-	-	80
Sep	77.50	-0.25	-	-	-	35
Nov	79.50	-0.25	79.75	79.50	36	171
Jan	81.50	-0.25	-	-	-	20
Total					36	589

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	507.50	-5.75	519.00	508.50	39,596	68,100
May	511.50	-8.25	523.50	511.00	10,065	31,354
Jul	516.25	-8.25	528.75	515.50	5,621	32,800
Aug	518.00	-5.50	529.50	517.50	70	9,670
Sep	518.50	-8.00	530.50	518.00	122	2,896
Nov	528.25	-4.25	537.50	526.00	1,804	20,598
Total					57,453	166,373

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	21.06	-0.25	21.48	20.97	12,335	52,325
May	21.34	-0.19	21.72	21.34	7,358	30,072
Jul	21.56	-0.17	21.92	21.46	3,245	21,693
Aug	21.67	-0.15	21.98	21.57	1,341	5,531
Sep	21.75	-0.15	22.07	21.66	448	4,505
Oct	21.83	-0.07	22.10	21.75	404	2,604
Total					27,444	126,972

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	134.8	-1.0	137.9	134.6	20,175	46,890
May	133.7	-1.4	137.2	133.6	7,191	30,767
Jul	134.8	-1.2	138.2	134.7	4,895	28,815
Aug	136.6	-0.9	139.6	136.5	1,158	8,436
Sep	137.5	-1.4	141.0	137.5	361	7,013
Oct	139.0	-1.0	142.0	139.0	99	2,599
Total					35,043	132,866

■ POTATOES LIFFE (20 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	250.0	-	-	-	-	-
Apr	309.0	+1.0	309.0	304.0	108	2,058
May	319.0	+1.0	-	-	-	23
Jun	329.0	+1.0	-	-	-	-
Nov	85.0	-	-	-	-	3
Total					108	2,104

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Feb	805	+35	810	805	44	242
Mar	835	+23	835	815	27	156
Apr	925	+28	925	900	7	986
Jul	795	+5	795	795	1	602
Oct	910	+10	-	-	-	392
Total					79	2,397

	Close	Prev
BFI	794	803

PULP AND PAPER

■ PULPEX OMLX (US$; 24 air dry tons)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	405.25	-2.00	407.00	405.25	58	463
Jan	430.25	-1.00	430.75	430.25	45	222
Total					114	792

FUTURES DATA
All futures data supplied by CMS.

Nuts and seeds Prices from Kenkko London $ per m/t. Iranian pistachios 28/30 raw (in shell) naturally opened (round): crop 1998 as follows: 28/30 at $2,700, FCA Europe, 20/22 at $3,500 CFR MEP. All prices subject to aflatoxin passage; 80 per cent goods RPPC passed. Turkish hazelnuts 13/15 and 11/13, crop 1998 indication $4,150 CFR. Indian cashews crop 1998 CFR from top shippers, W320 at $5,800, W240 at $6,500. Market easing. US almonds standard 5 per cent crop 1998 at $3,500. Indication for crop 1999 at 3,250 FAS for SL5 per cent. All FAS. Moldovian walnuts crop 1998 offered as light halves and pieces at $3,750 CFR MEP (duty paid).

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	901	+8	905	895	6,315	41,160
May	914	+8	919	908	3,782	35,640
Jul	934	+8	940	930	808	12,890
Sep	954	+8	960	949	5,320	30,643
Dec	978	+8	984	978	10,885	26,197
Mar	1002	+8	1007	1004	101	17,040
Total					43,188	163,655

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	1318	-1	1325	1312	2,481	27,784
May	1348	-4	1356	1343	751	22,230
Jul	1374	-6	1385	1373	460	7,478
Sep	1404	-6	1412	1411	101	4,798
Dec	1442	-6	1456	1450	237	8,073
Mar	1480	-6	1492	1492	19	6,395
Total					4,028	76,849

■ COCOA (ICCO) (SDR's/tonne)

Feb 2	Price	Prev. day
Daily	1018.37	1021.84

■ COFFEE LIFFE (5 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	1726	+18	1733	1715	2,286	23,596
May	1664	+18	1670	1654	2,297	10,910
Jul	1649	+14	1653	1643	295	2,978
Sep	1638	+14	1643	1633	98	1,501
Nov	1629	+14	-	-	-	373
Jan	1624	+19	1609	1609	100	145
Total					5,894	39,493

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	105.50	-0.95	107.50	104.25	3,642	16,568
May	107.05	-1.20	109.00	106.25	1,753	10,173
Jul	108.50	-1.40	110.25	108.00	420	3,942
Sep	110.25	-1.10	111.90	109.50	183	2,575
Dec	111.55	-1.10	113.40	111.40	77	1,394
Mar	111.85	-2.05	114.00	112.50	11	432
Total					6,080	35,105

■ COFFEE (ICO) (US cents/pound)

Feb 2		Prev. day
Comp. daily	[illegible]	93.11
15 day average	95.37	95.90

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	222.4	-2.0	226.0	[illegible]	1,749	13,557
May	220.7	-1.9	224.5	220.0	1,667	17,621
Aug	217.9	-3.1	222.0	218.0	379	9,288
Oct	210.9	-2.2	213.2	210.5	175	8,118
Dec	213.9	-1.9	215.8	214.0	195	1,859
Mar	218.4	-1.7	219.8	218.5	12	1,278
Total					4,269	52,604

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	6.81	-0.11	6.95	6.79	9,016	64,250
May	6.84	-0.13	6.80	6.83	2,900	36,871
Jul	6.58	-0.12	6.72	6.57	3,119	32,411
Oct	[illegible]	-0.05	7.09	6.98	794	21,134
Mar	7.37	-0.07	7.44	7.33	523	12,964
May	7.43	-0.07	7.46	7.42	31	2,941
Total					16,416	171,762

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	60.39	+0.31	60.75	59.91	5,793	27,820
May	61.01	+0.25	61.30	60.70	1,860	18,023
Jul	61.60	+0.29	61.80	61.35	650	12,543
Oct	62.40	+0.13	62.40	62.40	80	1,653
Dec	62.70	-0.28	63.15	62.70	365	13,557
Mar	63.66	-0.32	64.00	64.00	48	1,598
Total					8,774	76,668

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	103.40	+1.90	103.55	101.25	1,356	16,181
May	102.95	+1.70	103.00	101.10	256	5,985
Jul	102.90	+1.45	102.90	101.15	39	3,010
Sep	103.15	+1.75	103.15	101.00	6	802
Nov	102.65	+1.25	102.60	102.60	1	616
Jan	102.45	+1.05	-	-	-	340
Total					1,658	27,941

VOLUME DATA
Open Interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open Interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Feb 3	Feb 2	month ago	year ago
1447.8	1435.1	1480.6	1745.0

■ CRB Futures (Base: 1967 = 100)

Feb 2	Feb 1	month ago	year ago
190.68	189.52	-	-

■ GSCI Spot (Base: 1970 = 100)

Feb 2	Feb 1	month ago	year ago
133.91	133.49	134.76	174.08

LME WAREHOUSE STOCKS (tonnes)

Aluminium	+1,375	to	730,425
Aluminium alloy	-	to	95,220
Copper	+4,000	to	[illegible]
Lead	-	to	105,350
Nickel	+972	to	66,204
Zinc	-250	to	312,600
Tin	+410	to	7,255

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Feb	64.375	+1.375	64.400	62.875	9,123	23,899
Apr	66.975	+1.225	67.100	65.575	7,717	46,414
Jun	65.400	+0.925	65.475	64.425	3,089	24,362
Aug	64.900	+0.500	65.000	64.125	1,860	12,090
Oct	66.475	+0.550	66.600	65.700	361	7,512
Dec	67.425	+0.575	67.500	66.800	99	2,931
Total					22,882	117,471

■ LEAN HOGS CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Feb	40.650	-0.825	41.700	40.150	3,906	8,474
Apr	43.925	+0.400	45.100	42.950	3,343	14,916
Jun	55.050	+0.725	55.800	54.000	1,086	8,395
Jul	55.875	+0.575	56.250	54.950	628	3,798
Aug	55.750	+0.300	56.550	55.150	146	3,610
Oct	54.925	+0.425	56.250	54.175	169	3,760
Total					9,376	44,749

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Feb	56.650	+0.975	57.500	55.000	1,338	2,662
Mar	57.175	+1.325	58.000	55.450	804	2,982
May	57.800	+0.875	59.050	56.700	274	1,070
Jul	58.600	+1.525	59.000	57.000	107	789
Total					2,614	7,749

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME	Mar	Jun	Mar	Jun
1150	58	87	6	17
1200	23	55	23	34
1250	7	32	58	60

■ COPPER (Grade A) LME	Mar	Jun	Mar	Jun
1450	27	72	38	68
1500	11	50	73	95
1550	4	33	118	118

■ COFFEE LIFFE	Mar	May	Mar	May
1600	131	111	5	47
1650	87	82	11	68
1700	50	60	24	88

■ COCOA LIFFE	Mar	May	Mar	May
900	17	44	16	30
925	9	31	33	42
950	3	21	52	57

■ BRENT CRUDE IPE	Mar	Apr	Mar	Apr
1100	28	65	-	-
1150	6	33	-	-
1200	2	26	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$10.77-0.87x	+0.355
Brent Blend (dated)	$10.80-0.84	+0.38
Brent Blend (Mar)	$11.15-1.19	+0.38
W.T.I.	$12.57-2.59x	+0.44

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$120-122	
Gas Oil	$100-103	+1.5
Heavy Fuel Oil	$60-62	-2
Naphtha	$97-99	+1
Jet fuel	$119-121	+3.5
Diesel	$106-107	+1

■ NATURAL GAS (Pence/therm)

Bacton (Mar)	9.38-9.42	+0.135

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

Gold (per troy oz)♣	$286.85	[illegible]
Silver (per troy oz)♣	554.00c	+26.00
Platinum (per troy oz.)	$354.50	+5.00
Palladium (per troy oz.)	$346.00	+7.30
Copper	70.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	19.12r	
Tin (New York)	245.5	
Cattle (live weight)	90.17p	+1.01*
Sheep (live weight)	74.48p	+2.74*
Pigs (live weight)†	51.95p	+4.58*
Lon. day sugar (raw)	$174.20	+4.40
Lon. day sugar (wte)	$220.00	+2.80
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	Unq	
Rubber (Feb)♥	48.50p	[illegible]
Rubber (Mar)♥	49.00p	+0.50
Rubber (KL RSS No1)	282.50m	-3.50
Coconut Oil (Phil)§	780.00	+10.0
Palm Oil (Malay)§	550.00	
Copra (Phil)§	490.0y	
Soyabeans (US)	150.0y	+5.0
Cotton Outlook'A' index	58.85	+0.70
Wooltops (64s Super)	299p	

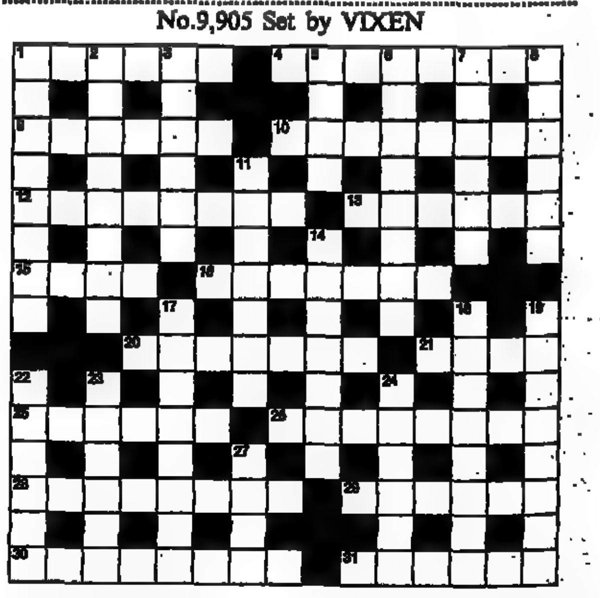
£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. y Sep/Oct. x Mar. ♥London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on 1,346 head of pigs sold.

JOTTER PAD

For solutions to today's crossword call 0891 430080. Calls cost 50p a minute.

CROSSWORD

No.9,905 Set by VIXEN



ACROSS
1 Fish requiring urgent regulation (6)
4 Carol gets drink in, being a good sort (8)
9 The solution's seen right after a news broadcast (6)
10 Look into way out item on the menu (8)
12 Burning to acquire love bird (8)
13 Various individuals going under (6)
15 Gather he was a member of the Greens (4)
16 Detests using a hostel (7)
20 A quarter left with little hesitation due to disparagement (7)
21 A number made a meal of fruit (4)
25 The sum a horse will fetch (6)
26 Get together German and British articles in the holiday (8)
28 Cereal cooked in the can (8)
29 Courteous staff will encompass it (6)
30 Handed over patient (8)
31 The gift of a story book (6)

DOWN
1 Writing of servicemen prepared to travel around (8)
2 Fact-finding orders scare her (8)
3 Protection for the viewer (6)
5 After a job (4)
6 A person making out his property has been sold (8)
7 Attended to pressing business (6)
8 This banded stone from Cologne is superb (6)
11 There's possibly no guard on the beach (7)
14 Spoke of downright newspaper leader (7)
17 Inclined to hang around a social worker (8)
18 Periodical repository for explosives (8)
19 Torn about constantly appearing cap-in-hand (8)
22 Check by following a bit of a swine (6)
23 Accumulation can be so hard (6)
24 Oriental copper or a Spanish woman (6)
27 A monster, and therefore elevated! (4)

Solution 9,904

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

BERMUDA (REGULATED)(**)

CAYMAN ISLANDS (REGULATED)(**)

GUERNSEY (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

IRELAND (FSA RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

Nickel maintains upward trend

CROSSWORD

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

LUXEMBOURG
(FSA RECOGNISED)

JERSEY
(REGULATED)(**)

LUXEMBOURG
(REGULATED)(**)

OFFSHORE INSURANCES

هكذا من الاصل

FT MANAGED FUNDS SERVICE

Offshore Funds and Insurances

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
[illegible]								

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CONSTRUCTION

[illegible]

CONSTRUCTION - Continued

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Continued

[illegible]

ENGINEERING - Continued

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

FOOD PRODUCERS

[illegible]

FOOD PRODUCERS - Continued

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HEALTH CARE - Continued

[illegible]

HOUSEHOLD GOODS & TEXT

[illegible]

INSURANCE

[illegible]

INSURANCE - Continued

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Continued

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

صكذا من الاصل

هدية من الأهل

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Continued

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Continued

RETAILERS, FOOD

RETAILERS, GENERAL

SUPPORT SERVICES

SUPPORT SERVICES - Continued

TELECOMMUNICATIONS

TOBACCO

TRANSPORT

TRANSPORT - Continued

WATER

AMERICANS

CANADIANS

SOUTH AFRICANS

TRADED INDEX SECURITIES

AIM

Alternative Investment Market

AIM - Continued

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by Tradal, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 index constituents and reserves contained in the Trading Volume table on the LSE page, last trade prices at or prior to 4.30pm market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-prices/last trades over a rolling 52 week period.

Trading Volumes are end of day accumulated totals. Dashes indicate that either no trade has taken place during the day or the data is not available for those particular securities. Volumes shown for foreign securities are based on London trading.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent (except where payment is due after 6/4/99 when no tax credit will be applied) and allow for the value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

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WORLD STOCK MARKETS

Leaders slip as midcap advance grinds to halt

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

There was more than an element of uncertainty in London's stock market yesterday as the blue chips saw an early gain quickly wiped out and replaced by hefty losses.

Even more worrying for the market's optimists was the abrupt halt in the seven-session run of winning performances by the market's second-liners, represented by the FTSE 250.

But the smallcap stocks managed to maintain their outperformance, as evidence of more bid activity among the market's minnows outweighed the latest batch of profit warnings.

During the trading session, the FTSE 100 index moved in a band of 125 points, an early gain of 35 points eventually being replaced by a 90-point fall.

At the final bell, the index had rallied a shade to end a net 72.7 lower at 5,940.3, its first overall decline in four sessions.

The FTSE 250's rally, which had driven the index up over 300 points, carried on during the morning, only to evaporate in the afternoon. The index settled 2.1 off at 5,213.2, having reached 5,231.4 at its best.

Bulls of the smaller stocks saw the FTSE SmallCap post its seventh consecutive gain, to finish 12.7 firmer at 2,183.5.

The gradual but subsequently substantial decline in the front-line stocks was attributed by dealers to some aggressive profit-taking in the recently buoyant telecom/cable stocks, plus increasing nervousness about the potential for more domestic interest rate cuts.

Dealers said the market was still optimistic that the two-day meeting of the Bank of England's monetary policy committee, which ends this morning, will see the committee sanction a further 25 basis points reduction in UK interest rates, the fifth reduction in as many months. An announcement will be made at midday.

But the benefits of a rate cut here were seen as being eroded by niggling concerns about the direction of US interest rates. The US Federal Reserve's open market committee ended its two-day meeting yesterday with global markets expecting rates to be kept on hold again. But there were mutterings from some that the next move in US rates might be upwards.

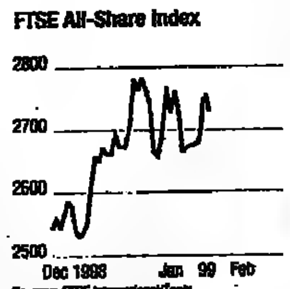
Evidence that the domestic economy is still under pressure came with the day's two surveys, the purchasing managers' survey of the services industry and the Confederation of British Industry's survey of distributive trades.

The former, although slightly higher over the month, remained below the crucial 50 level, indicating a further decline in activity, while the CBI survey noted another decline in high street sales, prompting the industry body to call for a 50 basis points reduction in rates today.

Turnover in the equity market continued to please its participants, topping the 1bn shares mark again and eventually reaching 1.16bn shares by the 6pm count, with FTSE 100 stocks accounting for 52 per cent of the total.

BP Amoco and Shell were heavily traded after a Commerzbank upgrade, and accounted for over 4 per cent of the total market turnover.

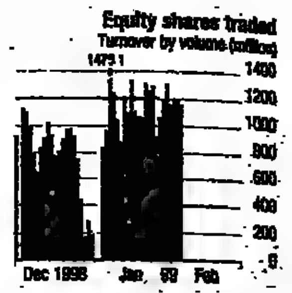
FTSE All-Share Index



Sources: FTSE International/Topic

Equity shares traded

Turnover by volume (million)



Indices and ratios

FTSE 100	5940.3	-72.7	FT 30	3619.3	-27.5
FTSE 250	5213.2	-2.1	FTSE Non-Fins p/e	23.76	24.0
FTSE 350	2826.4	-28.3	FTSE 100 Fut Mar	5928.0	-79.0
FTSE All-Share	2730.31	-28.17	10 yr Gilt yield	4.39	4.34
FTSE All-Share yield	2.85	2.82	Long gilt/equity yld ratio	1.54	1.54

Best performing sectors

1 Leisure & Hotels +3.0
2 Household Goods & Texts +1.9
3 Transport +0.9
4 Paper Pckg & Printing +0.8
5 Retailers General +0.7

Worst performing sectors

1 Telecommunications -3.2
2 Alcoholic Beverages -3.1
3 Gas Distribution -3.0
4 Food Producers -2.8
5 Electronic & Elect Equip -2.6

Scottish banks in spotlight

COMPANIES REPORT

By Peter John, Joel Kibazo and Martin Brice

The fickle finger of takeover speculation in the banking sector moved from Ireland to Scotland yesterday.

Allied Irish Banks, which shot to a new high on Tuesday after speculation that Deutsche Bank, Lloyds or ABN Amro might be interested in making a move, slithered 60 to £12.02.

Mark Thomas at Credit Lyonnais Securities said a bid was unlikely and recommended a switch on valuation grounds into Bank of Ireland, up 42 to 439½p.

Bank of Scotland and Royal Bank of Scotland shot forward 28 to 836p and 42 to £11.89. Barclays announced it had more than 3 per cent of Royal Bank and that led to some vague merger talk.

But it appeared that a meeting, hosted by Merrill Lynch, between Bank of Scotland executives and a clutch of fund managers, lay behind the gains. Bank of Scotland gave an upbeat presentation at which it reassured investors that bad debts were not hitting.

An upbeat trading statement from leisure and television company Granada Group lifted the shares and helped boost activity in other leading issues in the sector. At its annual meeting, chairman Gerry Robinson said the group was "on track" to meet the targets in its three-year plan first outlined last November.

Sentiment was also enhanced by a Lehman Brothers recommendation. Resisting the poor market trend, the shares jumped 55 to £11.51½.

The positive sentiment in Granada spread to other issues. Investors were particularly keen on Ladbroke Group, which helped the shares extend Tuesday's advance that followed a Sutherlands recommendation. Yesterday the shares gained 14½ or 6.35 per cent to 243p, making it the best performer in the FTSE 100.

First Leisure improved 11½ to 213¾p after a report that it had rejected a takeover offer from Rank Group and was holding out for an offer around the 300p mark.

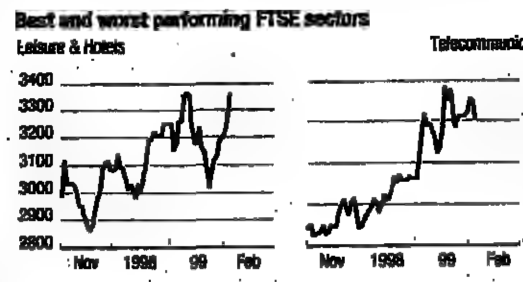
However, leisure specialists said it would be more than surprising if Rank launched a bid for any company before its new chief executive takes the reins in April.

Gloom settled over ICI ahead of the full-year figures today and the shares fell 26½ to 518p. Profits of £315m have been well signposted and the debate focuses on trading conditions in the main geographic markets and some disposal hopes.

Analysts said the stock usually performs well ahead of the figures. But the shares have already had a run-up on the back of figures from the chemical giants in the US and from recent support for the cyclical stocks.

And Martin Evans at Sutherlands, the leading bear of the stock, said it was "highly unlikely that the company will be felicitous enough to announce disposals given the delicacy and timing of such negotiations".

Best and worst performing FTSE sectors



Source: Datastream/ICV

FT 30 INDEX

	Feb 3	Feb 2	Feb 1	Jan 29	Jan 28	Yr ago	*High	*Low
FT 30	3619.3	3646.8	3638.7	3565.5	3535.7	3413.0	4004.8	2790.6
Ord. div. yield	2.90	2.87	2.87	2.93	2.951	3.16	4.22	2.72
P/E ratio net	23.12	23.38	23.33	22.86	22.720	22.41	25.41	15.80
P/E ratio nil	23.03	23.23	23.24	22.77	22.628	N/A	26.19	15.71

FT 30 since compilation: high 4004.8 [illegible]; low 49.4 [illegible]. Base Date: 1/7/35.

FT 30 hourly changes

9	10	11	12	13	14	15	16	High	Low
3646.8	3657.8	3647.7	3638.6	3618.3	3615.8	3607.8	3621.1	3668.1	3602.0

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STOCK MARKET TRADING DATA

	Feb 3	Feb 2	Feb 1	Jan 29	Jan 28	Yr ago
SEAQ bargains	77,566	77,222	85,334	72,724	72,192	n/a
Equity turnover (£m)†	-	n/a	4202.7	4744.1	5304.8	n/a
Equity bargains†	-	n/a	69,144	61,160	80,392	n/a
Shares traded (mil)†	-	n/a	1099.3	1162.5	1216.4	n/a
Total market bargains‡	-	n/a	84,145	72,498	73,898	-
Total turnover (£m)‡	-	n/a	5171.4	5327.8	6385.8	-
Total shrs traded (mil)‡	*1161.1	n/a	1309.2	1426.8	1579.3	-
Tradepoint turnover (£m)	33.5	28.4	32.8	29.4	37.9	28.5
Tradepoint shrs traded(m)	8.8	12.7	13.7	9.6	15.6	8.9

†Excluding intra-market and overseas turnover but including Crest turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover.

■ London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	827	Total Highs	88	Total contracts	40,109
Total Falls	949	Total Lows	32	Calls	19,864
Same	1,364			Puts	20,640

Feb 3 *Data based on Equity shares listed on the London Share Service.

BP Amoco rises

BP Amoco moved forward 10 to 865p on the back of broker support and Opec rumours. Commerzbank lifted its recommendation on BP Amoco from "sell" to "hold" pointing out that the stock had underperformed the FTSE All-Share by 9 per cent since the start of the year in spite of the weighting pressure imposed by the Amoco deal.

There was also a lift from continuing speculation that Opec might bring forward its late March meeting in an attempt to tackle persistent low oil prices.

Zeneca led the pharmaceutical giants lower as Merrill Lynch cut its recommendation on the stock from "accumulate" to "neutral".

The broker says that, while the merger with Astra of Sweden should create a stronger company, it will compound the UK group's exposure to imminent patent expiries. Merrill does not expect a counter bid and believes earnings growth will be below 15 per cent in 2000 and 2001 and flat in 2002.

The shares fell 95 to £26.72 while SmithKline Beecham fell 15 to 804½p after an FDA complaint against one of the company's US plants. Glaxo Wellcome dropped 40 to £19.88 after negative comments from one US broker.

SmithKline and Glaxo were also dragged down by some cautious comments from J.P. Morgan, which reiterated its neutral stance, preferring continental leaders such as Roche and Rhône-Poulenc.

Telewest Communications was the busiest trade in the sector. Turnover was £1m as the shares slipped 24½ to 249½p, the worst performer among Footsie constituents.

Securicor fell 9¾ to 623p. Henderson Crosthwaite is cautious on the price BT may pay to acquire Securicor's 40 per cent holding in mobile operator Cellnet.

BT owns 60 per cent of Cellnet and is rumoured to be interested in acquiring the outstanding amount in the next few months.

Specialist engineering group Fenner was up 12 at 129½p as Dresdner Kleinwort Benson highlighted the effect of the tie-up by Goodyear with Japanese tyre maker Sumitomo. Colin Fell at the broker said Goodyear was Fenner's leading competitor, and its focus on tyres suggests it might neglect and marginalise the conveyor business. "This has to be good for the growth of Fenner's business and may even allow it to make more acquisitions."

British Airways achieved one of the better FTSE 100 performances as traffic figures were interpreted as showing a smaller-than-expected year-on-year decline in the number of critical premium seats sold. The shares were up almost 5 per cent, or 16 at 374½p. They suffered badly last year on fears of an economic slowdown and fell from 700p to near 300p but have recovered in recent trading.

BA said its premium passenger traffic numbers had fallen 1.1 per cent from a year earlier, which was a decline of about half that suffered in each of the previous three months.

However, the shine was taken off the achievement as BA highlighted its policy of price-cutting to achieve volumes. It said: "Traffic volumes are being helped by marketplace offers which will continue to impact average yields in the fourth quarter of the financial year".

Scapa was the top performer in the FTSE 250 with a rise of 14½ to 124½p on rumours that the industrial materials company was being stalked by an European predator with an offer of 180p a share.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	6015.0	5935.0	-72.0	6050.0	5920.0	24010	187227
Jun	6077.0	5977.0	-70.0	6077.0	5966.0	2026	15834
Sep	6109.0	6019.0	-71.0	6109.0	6109.0	130	1330

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	5217.0	5203.0	-7.0	5217.0	5217.0	78	6985
Jun	-	5220.0	-6.0	-	-	0	300

■ FTSE 100 INDEX OPTION (LIFFE) (*5940) £10 per full index point

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

LONDON RECENT ISSUES: EQUITIES

FTSE GOLD MINES INDEX

	Feb 2	% chg on day	Feb 1	Year ago	Gross div yield %	Total return	52 week High	Low
Gold Mines Index (25)	984.05	0.8	[illegible]	1114.84	1.86	[illegible]	1301.87	761.88
■ Regional Indices								
Africa (9)	1051.41	1.0	1041.43	1212.28	4.18	[illegible]	[illegible]	[illegible]
Australasia (9)	1193.42	2.2	1167.52	1302.79	3.88	[illegible]	[illegible]	[illegible]
Americas (11)	600.59	0.6	595.07	1054.59	0.64	[illegible]	[illegible]	[illegible]

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FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	£ Stlg Feb 3	Day's chge%	Euro Index	£ Stlg Feb 2	Year ago	Gross yield%	Net yield%
FTSE 100	5940.3	-1.2	[illegible]	6013.0	5595.8	2.74	2.35
FTSE 250	5213.2	—	5870.1	5215.3	4835.8	3.18	2.75
FTSE 250 ex Inv Tr	5242.7	—	5903.4	5245.0	4864.7	3.31	2.89
FTSE 350	2826.4	-1.0	3182.5	2855.7	2663.7	2.81	2.41
FTSE 350 ex Inv Tr	2832.1	-1.0	[illegible]	2861.9	2669.6	2.82	2.42
FTSE 350 Higher Yield	2511.1	-0.8	2940.2	2826.4	2857.4	3.84	3.38

■ FTSE Actuaries Industry Sectors

■ Hourly movements

TRADING VOLUME

■ Major Stocks yesterday

FTSE INTERNATIONAL

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE (EMU) Prices in €

AUSTRIA (Feb 3) 1 € = 13.7603 Sch

BELGIUM/LUX (Feb 3) 1 € = 40.3399 Frs.

FINLAND (Feb 3) 1 € = 5.94573 Mka

FRANCE (Feb 3) 1 € = 6.55957 Frs.

GERMANY (Feb 3) 1 € = 1.95583 Dm.

IRELAND (Feb 3) 1 € = 0.78756 Punt

ITALY (Feb 3) 1 € = 1936.27 Lire

NETHERLANDS (Feb 3) 1 € = 2.20371 Fls.

PORTUGAL (Feb 3) 1 € = 200.482 Esc.

SPAIN (Feb 3) 1 € = 166.386 Pta.

EUROPE (NON-EMU)

CZECH REP (Feb 3 / Koruna)

DENMARK (Feb 3 / Kr)

GREECE (Feb 3 / Drachma)

NORWAY (Feb 3 / Kroner)

POLAND (Feb 3 / Zloty)

SWEDEN (Feb 3 / Kronor)

SWITZERLAND (Feb 3 / Frs.)

TURKEY (Feb 3 / Tk.Lira)

PACIFIC

JAPAN (Feb 3 / Yen)

AUSTRALIA (Feb 3 / Aus$)

HONG KONG (Feb 3 / H.K.$)

INDONESIA (Feb 3 / Rupiah)

MALAYSIA (Feb 3 / MYR)

NEW ZEALAND (Feb 3 / NZ $)

SINGAPORE (Feb 3 / S$)

SOUTH KOREA (Feb 3 / Won)

TAIWAN (Feb 3 / TW $)

THAILAND (Feb 3 / Baht)

AMERICAS

CANADA

TORONTO (Feb 3 / Can $) 4 pm close

MONTREAL (Feb 3 / Can $) 4 pm close

MEXICO (Feb 3 / Peso) 12.30 pm

AFRICA

SOUTH AFRICA (Feb 3 / Rand)

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	TUESDAY FEBRUARY 2 1999 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	Euro Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MONDAY FEBRUARY 1 1999 US Dollar Index	Pound Sterling Index	Yen Index	Euro Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (78)	212.88	0.4	191.74	151.45	215.89	221.32	-0.4	3.31	212.08	191.68	154.32	216.04	222.30	219.96	163.86	214.03
Austria (21)	172.81	-0.3	155.46	122.80	154.46	154.46	-0.8	2.16	173.19	156.52	126.02	155.87	155.87	253.73	165.27	197.54
Belgium (22)	409.57	0.9	368.88	291.38	358.84	358.84	0.5	1.88	405.72	366.68	295.21	357.04	357.04	448.95	289.31	289.54
Brazil (29)	110.15	6.5	99.21	78.37	111.71	385.97	-2.1	2.48	103.39	93.44	75.23	105.32	373.98	289.34	89.32	225.68
Canada (113)	209.51	-1.8	188.70	149.06	212.47	229.40	-1.5	1.72	213.44	192.90	155.30	217.42	233.02	248.78	159.94	211.97
Denmark (34)	481.93	-0.1	434.08	342.87	488.75	429.39	-0.6	1.63	482.48	436.05	351.06	491.47	431.80	537.33	420.12	484.86
Finland (29)	600.95	-3.1	541.26	427.55	660.42	660.42	-3.5	1.72	620.10	560.43	451.20	684.46	684.46	681.25	304.55	304.55
France (73)	337.59	-0.3	304.05	240.17	305.92	305.92	-0.7	2.05	338.50	305.93	246.30	308.11	308.11	354.45	246.64	249.30
Germany (55)	277.53	0.0	249.96	197.45	248.53	248.53	-0.5	1.32	277.57	250.87	201.97	249.67	249.67	325.61	228.35	240.79
Greece (36)	417.19	2.1	375.75	296.81	423.09	843.83	1.4	1.01	408.56	369.25	297.28	416.17	832.01	417.19	211.47	–
Hong Kong, China (66)	282.90	-0.6	254.80	201.27	286.90	281.47	-0.6	4.32	284.74	257.34	207.18	290.04	283.27	392.55	196.64	343.77
Indonesia (24)	47.34	1.3	42.64	33.68	48.01	255.55	0.2	1.20	46.73	42.23	34.00	47.60	255.12	64.52	19.04	58.30
Ireland (14)	569.18	3.0	512.64	404.93	558.27	558.27	2.5	1.76	552.72	499.50	402.17	542.58	542.58	605.85	395.15	434.73
Italy (53)	169.96	-1.1	153.08	120.92	216.45	216.45	-1.6	1.29	171.90	155.36	125.08	219.89	219.89	192.64	128.68	130.73
Japan (445)	103.15	1.8	92.91	73.39	104.62	73.39	-0.5	1.02	101.38	91.62	73.77	103.27	73.77	109.73	76.63	104.14
Mexico (29)	1151.20	-0.6	1036.84	819.01	1167.47	12678.45	-0.8	2.82	1158.14	1046.70	842.69	1179.71	12776.41	1733.73	787.15	1570.42
Netherlands (26)	497.24	-0.6	447.84	353.75	440.46	440.46	-1.0	2.15	500.12	452.00	363.90	444.98	444.98	562.73	394.92	417.07
New Zealand (18)	66.55	0.7	59.94	47.35	67.49	64.78	0.2	4.50	66.06	59.71	48.07	67.29	64.62	77.84	45.68	75.46
Norway (37)	241.15	-1.5	217.20	171.57	244.56	247.86	-1.2	2.32	244.74	221.19	178.08	249.30	250.85	357.71	181.86	302.34
Philippines (22)	86.96	0.5	78.32	61.87	88.19	167.08	0.5	0.97	86.57	78.24	62.99	88.18	166.31	108.98	42.48	91.51
Portugal (18)	262.65	0.5	236.56	186.86	317.42	317.42	0.1	1.03	261.26	236.12	190.10	317.13	317.13	289.39	194.13	–
Singapore (40)	206.09	-0.6	185.62	146.62	209.01	180.03	-0.9	1.78	207.38	187.43	150.90	211.24	181.54	246.74	102.45	212.76
South Africa (35)	191.44	-0.3	172.49	136.20	194.15	251.60	-0.7	3.55	191.99	173.51	139.69	195.56	253.24	346.20	151.55	283.16
Spain (30)	392.01	0.0	353.07	278.89	435.18	435.18	-0.5	1.85	392.13	354.40	285.32	437.24	437.24	435.19	290.81	298.94
Sweden (43)	545.69	0.2	491.48	388.22	553.40	632.04	0.2	1.84	544.45	492.08	396.15	554.59	630.45	628.19	379.18	485.86
Switzerland (30)	409.46	0.2	368.78	291.30	415.25	357.75	-0.8	1.19	408.47	369.17	297.21	416.08	360.46	441.65	307.73	358.90
Thailand (31)	21.99	-4.8	19.88	15.64	22.30	31.36	-4.9	2.99	23.10	20.88	16.81	23.53	32.97	33.84	8.15	31.94
United Kingdom (203)	385.05	0.6	346.80	273.94	390.49	346.80	0.2	2.83	382.76	345.93	278.50	389.89	345.93	401.84	307.96	356.17
USA (619)	521.23	-0.8	469.46	370.83	528.80	521.23	-0.8	1.25	525.30	474.76	382.22	535.09	525.30	527.72	380.12	408.42
Americas (784)	462.46	-0.8	416.52	329.01	469.00	392.64	-0.8	1.28	466.11	421.28	339.15	474.80	395.83	467.90	347.59	369.69
Europe (724)	361.60	0.1	325.68	257.26	366.71	333.87	-0.4	2.03	361.35	326.58	262.93	368.08	335.12	386.24	282.63	306.26
Eurobloc (341)	104.51	-0.3	94.13	74.35	101.29	101.29	-0.8	1.71	104.85	94.77	76.29	102.08	102.08	113.92	81.53	–
Nordic (143)	514.10	-0.8	463.04	365.75	521.37	516.32	-1.0	1.81	518.33	468.45	377.15	527.98	521.38	555.97	360.04	426.68
Pacific Basin (722)	110.27	1.4	99.32	78.45	111.83	81.71	-0.5	1.53	108.77	98.31	79.15	110.80	82.13	119.48	82.88	113.46
Euro-Pacific (1446)	214.71	0.5	193.39	152.76	217.75	178.42	-0.4	1.89	213.76	193.19	155.54	217.74	177.16	221.79	166.00	193.88
North America (726)	500.15	-0.8	450.47	355.83	507.22	501.12	-0.8	1.27	504.24	455.73	366.90	513.64	505.16	506.43	374.92	395.79
Europe Ex. UK (521)	337.57	-0.2	304.04	240.16	342.34	317.36	-0.7	1.84	338.22	305.68	246.10	344.52	319.55	366.32	260.93	272.98
Europe Ex. Eurobloc (383)	98.79	0.5	88.98	70.28	100.19	98.51	0.0	2.37	98.31	88.85	71.53	100.14	98.47	103.93	77.40	–
Europe Ex. UK Ex. Eurobloc (180)	100.25	0.3	90.29	71.32	101.68	96.95	-0.4	1.40	99.99	90.37	72.75	101.85	97.34	109.21	75.18	–
Pacific Ex. Japan (277)	181.20	-0.1	163.20	128.91	183.76	183.84	-0.6	3.55	181.38	163.84	131.99	184.77	184.05	216.04	128.26	200.52
World Ex. Eurobloc (1925)	107.39	-0.2	108.69	90.84	108.91	105.61	-0.6	1.52	107.64	109.32	93.12	109.64	106.26	108.05	83.09	–
World Ex. US (1663)	213.86	0.4	192.61	152.15	216.88	181.46	-0.5	1.90	213.06	192.57	155.04	217.05	182.32	221.91	185.95	196.80
World Ex. UK (2083)	306.98	-0.3	275.59	217.69	310.31	272.98	-0.7	1.41	307.93	277.49	223.40	312.75	274.90	311.46	236.11	256.40
World Ex. Japan (1821)	417.17	-0.5	375.73	296.79	423.07	408.11	-0.7	1.61	419.14	378.81	304.98	426.95	410.78	427.99	320.58	345.38
The World Index (2266)	312.82	-0.2	281.74	222.55	317.24	279.81	-0.6	1.55	313.59	283.42	228.17	319.43	281.80	318.51	242.36	264.83

Emerging markets:

IFC investable indices

Dollar terms

Feb 2 — Market — Day's % Chg — % Chg since 12/31/98

Latin America, Argentina, Brazil, Chile, Colombia, Mexico, Peru, Venezuela, East Asia, China, India, Indonesia, Korea, Malaysia, Pakistan, Philippines, Sri Lanka, Taiwan, China, Thailand, Europe, Czech Rep, Greece, Hungary, Poland, Portugal, Russia, Slovakia, Turkey, Mideast/Africa, Egypt, Israel, Jordan, Morocco, S Africa, Zimbabwe, Regions, Composite, Latin America, Asia, EMEA, Europe, Emerging Europe, ME & Africa, Comp + Malay, Asia + Malay

4 pm close February 3

NEW YORK STOCK EXCHANGE PRICES

- A -

1998/99 High	Low	Stock	Div	Yld %	P/E	Vol 100s	High	Low	Close Quote	Chng Prev. Close
[illegible]	17 [illegible]	AAR x	0.34	1.7	14	698	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	AMP	1.08	2.1		11354	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	AMR				614539	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	ASA	0.80	4.8	10	116	17	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	AbbtL x	0.60	1.3	33	25526	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	Abitibi	0.40	4.6	4	407	[illegible]	[illegible]	[illegible]	[illegible]
37	25	ABM Ind x	0.56	1.8	20	115	[illegible]	[illegible]	32	[illegible]
[illegible]	[illegible]	Acceptnc			8	188	17	[illegible]	17	[illegible]
43	[illegible]	ACE Ltd	0.36	1.3	7	3822	[illegible]	[illegible]	[illegible]	
[illegible]	[illegible]	ACM Gvt In x	0.90	10.0	9	429	9	[illegible]	9	
[illegible]	[illegible]	ACM GvOpp x	0.60	8.3		43	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	ACM Man x	0.90	10.4		169	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	Acme Elect			21	54	[illegible]	[illegible]	[illegible]	
[illegible]	[illegible]	Acme Mills				20	[illegible]	[illegible]	[illegible]	
[illegible]	[illegible]	ACNielsen			30	3115	[illegible]	27	[illegible]	[illegible]
[illegible]	[illegible]	Acuson			18	408	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	Adams Expr	0.55	2.1	1	165	[illegible]	[illegible]	[illegible]	[illegible]

- X - Y - Z -

1998/99 High	Low	Stock	Div	Yld %	P/E	Vol 100s	High	Low	Close Quote	Chng Prev. Close
[illegible]	[illegible]	Xerox	1.60	1.3	34	15772	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	Xtra Corp			10	187	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	Yankee Egy	1.36	5.0	22	84	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	York Int	0.48	1.2	21	535	[illegible]	38	[illegible]	[illegible]
[illegible]	[illegible]	Zapata			9	844	11	[illegible]	11	[illegible]
[illegible]	[illegible]	Zenith Nat x	1.00	4.3	15	82	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	Zenix Inc	0.70	11.8		121	[illegible]	[illegible]	[illegible]	
[illegible]	[illegible]	ZweigFd	1.08	10.2		1137	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	Zweig Tot	0.84	9.7		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.

d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
Dealings suspended.

هكذا من الاصل

GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Feb 2	Feb 1	Jan 29	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Industrials	9274.12	9345.70	9358.83	9643.32 (8/1/99)	7539.07 (31/8/98)	9643.32 (8/1/99)	41.22 (8/7/32)
Home Bonds	106.20	106.40	106.45	107.17 (9/12/98)	104.42 (11/5/98)	107.17 (9/12/98)	54.99 (1/10/81)
Transport	3204.58	3248.89	3202.37	3686.02 (16/4/98)	2346.00 (9/10/98)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	294.98	296.08	302.80	328.51 (8/10/98)	282.68 (9/1/98)	328.51 (8/10/98)	16.53 (8/7/32)

DJ Ind. Day's High 9384.10 (9513.05) Low 9148.16 (9285.97) (Theoretical)
Day's High 9344.92 (9420.66) Low 9198.17 (9241.58) (Actual)

Standard and Poors							
Composite‡	1261.99	1273.04	1279.64	1279.64 (29/1/99)	927.69 (9/1/98)	1279.64 (29/1/99)	4.40 (1/6/32)
Industrials‡	1534.41	1547.08	1551.65	1551.65 (29/1/99)	1077.40 (9/1/98)	1551.65 (29/1/99)	3.52 (30/6/32)
Financial‡	129.10	130.66	132.73	147.89 (14/7/98)	95.80 (8/10/98)	147.89 (14/7/98)	7.13 (4/9/74)
Others							
NYSE Comp.	594.16	597.46	600.44	611.06 (8/1/99)	477.20 (8/10/98)	611.06 (8/1/99)	4.84 (25/4/42)
Amex Comp	708.63	712.63	714.86	763.67 (22/4/98)	563.75 (8/10/98)	763.67 (22/4/98)	524.20 (16/7/98)
NASDAQ Comp	2463.42	2510.09	2505.89	2510.09 (1/2/99)	1419.12 (8/10/98)	2510.09 (1/2/99)	54.87 (3/10/74)
Russell 2000	421.73	428.06	427.22	491.41 (21/4/98)	310.28 (8/10/98)	491.41 (21/4/98)	123.38 (7/12/93)

RATIOS

	Jan 29	Jan 22	Jan 15	Year ago
Dow Jones Ind. Div. Yield	1.84	1.67	1.64	1.74
	Jan 27	Jan 20	Jan 13	Year ago
S & P Ind. Div. yield	1.12	1.12	1.14	1.47
S & P Ind. P/E ratio	36.57	38.80	37.95	26.53

US DATA

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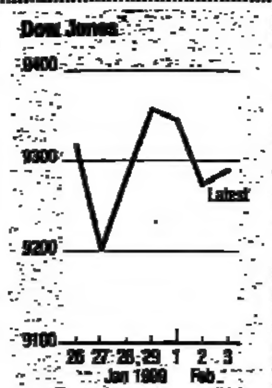
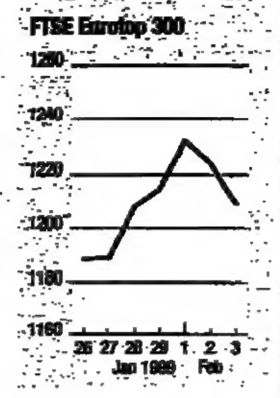




JAPAN

	Feb 3	Feb 2	Feb 1	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Nikkei 225	14181.31	14248.83	14465.18	17264.3	12880	38915.9	85.25

Day's high: 14250.55. Day's low: 14080.05.

TOKYO TRADING ACTIVITY — Volume : 303,880,000

Wednesday	Stocks traded	Close price	Day's change
Sakura	9,850,000	293	–6
ShokB	8,754,000	88	–8
FujiBk	7,227,000	445	–16
BTokMi	6,230,000	1310	–60
SowaBk	5,287,000	1038	–37
Hitachi	4,519,000	798	–1
SumTrB	3,784,000	304	–4
YasTrB	3,727,000	100	–5
Nikkey	3,638,000	434	–13
Fujitsu	3,423,000	1515	+1

Wednesday	Close price	Day's change	Day's chge %
Ups			
Masuko	580	+47	+8.7
SumRbr	575	+42	+7.9
Teijin	425	+28	+7.1
Downs			
Shok.B	88	–8	–8.3
Inaton	1050	–85	–7.5
ToyoTB	291	–23	–7.3
Aoba	90	–7	–7.2
Hamako	46	–3	–6.1

FRANCE

	Feb 3	Feb 2	Feb 1	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
CAC 40	4188.84	4243.57	4303.92	4388.48	2862.54	4388.48	984.61

Day's high: 4280.71 Day's low: 4170.02.

PARIS TRADING ACTIVITY — Volume : 815,486,046

Wednesday	Stocks traded	Close price	Day's change
Paribas	1,920,073	88.1	–4
FrTele	1,552,935	80.7	–1.8
AGF	1,420,117	55.5	+1.4
Usinor	1,275,518	11.2	–0.2
SocGen	1,172,864	141.9	–7.5
Renault	975,702	43.21	–2.70
StGobn	971,982	137	+5.2
ElfAqu	935,702	97.75	+0.25
BNP	932,103	78.5	–0.5
MichlnB	892,520	34.19	+1.37

Wednesday	Close price	Day's change	Day's chge %
Ups			
GzEaux	43.18	+3.02	+7.5
ClubMd	91.75	+4.75	+5.5
Legris	45.3	+2.3	+5.3
MichlnB	34.19	+1.37	+4.2
Downs			
Peug't	133.6	–10.6	–7.4
DassSy	39.1	–3.05	–7.2
Eramet	25.2	–1.8	–6.7
SrdVen	24.41	–1.59	–6.1

GERMANY

	Feb 3	Feb 2	Feb 1	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
DAX	5085.86	5186.87	5190.82	6171.43	3896.08	6171.43	931.18

Day's high: 5184.05. Day's low: 5057.87.

FRANKFURT TRADING ACTIVITY — Volume : (u)

Wednesday	Stocks traded	Close price	Day's change
Lufthn	359,772	18.1	–0.5
Dt Tel	353,521	38.25	–1.15
Bayer	348,214	32.95	+0.25
Dt Bk	310,908	47.95	–1.05
Commbk	301,186	25.8	
Siemens	280,918	52.5	–1.4
DmlrCh	288,521	88.6	–1.3
DresBk	258,350	34	–1.4
BASF	253,363	32.45	–0.8
H'chst	225,113	39.05	–0.7

Wednesday	Close price	Day's change	Day's chge %
Ups			
Contnti	24.3	+1.9	+8.5
KronPf	24.7	+1.6	+6.9
Ind Wk	14.6	+0.9	+6.5
Hochtf	27.15	+1.65	+6.5
Downs			
EscdPf	125	–14	–10.1
MnchRk	545	–35	–6.0
Dyown	34.3	–3	–6.5
Kradt	359	–19	–5.0

UK

	Feb 3	Feb 2	Feb 1	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
FTSE 100	5940.3	6013.0	6012.4	6179	4848.7	6179	986.9

Day's high: 6049.2. Day's low: 5922.8.

LONDON TRADING ACTIVITY — Volume : 1,161,100,000

Wednesday	Stocks traded	Close price	Day's change
Sabs	29,128,080	260	+10
Shell	27,954,020	310½	–3
Tesco	26,554,610	181½	+6½
BP Amoco	22,690,480	885	+10
TeleWest	21,184,610	248¼	–34½
BAE	20,271,360	384¼	+5½
ASDA	19,371,540	158¼	–5½
Billiton	18,905,270	113	–1½
Vodafone	15,606,170	1145	–29
Unilever	14,313,260	587	–25½

Wednesday	Close price	Day's change	Day's chge %
Ups			
Russell (A)	120	+29½	+32.6
Ultitec	19¾	+4	+25.8
Hldong Ent	50	+10	+25.0
SCi Enter	55½	+10½	+23.3
Downs			
Old Engl Pub	157½	–105½	–39.7
Ltd Energy	7¾	–2½	–25.0
Theo Fennell	32½	–5	–13.3
Hay (Norman)	39½	–6	–13.2

INDEX FUTURES

S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open int.
Mar	1264.00	1260.90	–4.40	1265.90	1258.00	112,980	352,493
Jun	–	1279.50	–6.70	–	1263.90	626	8,003
Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	14200.0	14220.0	–80.0	14220.0	14080.0	23,577	198,551
Jun	14080.0	13980.0	–220.0	14080.0	13980.0	76	32,485

CAC-40 (200 x index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Feb	4260.0	4191.0	–81.0	4286.5	4177.5	66,156	113,007
Mar	4280.0	4198.0	–81.0	4291.5	4188.0	2,651	62,303
DAX							
Mar	5150.0	5104.0	–80.5	5191.5	5067.5	56,470	183,788
Jun	5150.0	5132.0	–74.0	5210.0	5100.0	4,047	58,457

OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Feb	731.00	735.50	+0.50	742.00	730.00	15,315	172,095
Mar	737.00	736.00	+5.00	737.00	728.00	155	1,174
EUREX							
Mar	7224.0	7200.0	+10.0	7280.0	7157.0	21,379	127,955
Jun	7204.0	7148.0	+27.0	7204.0	7117.0	86	3,941

Open interest figures for previous day.

WORLD MARKETS AT A GLANCE

[illegible]

THE NASDAQ-AMEX MARKET GROUP

4 pm close February 3

[illegible]

AMEX

4 pm close February 3

[illegible]

EASDAQ

[illegible]

STOCK MARKETS

Cautious trade leaves bourses depressed

WORLD OVERVIEW

Caution proved the watchword for world equity markets yesterday, *writes Michael Morgan.*

Mostly weak, Asian markets looked on as Tokyo was depressed by rising Japanese interest rates and a stronger yen. And Europe was on hold, awaiting word after the markets closed from the US Federal Reserve meeting in Washington.

Few but the most pessimistic expected any change of course from the Fed in the face of a strong US economy.

Nonetheless, inaction seemed the safest course for European investors ahead of today's meeting of the European Central Bank where a move to cut rates was still regarded as too close to call.

Trade in many of the leading bourses was marked by low volumes. Wall Street's weak opening put the lid on any chance of a late rally. Frankfurt led the retreat with a fall of almost 1.5 per cent while Amsterdam, Paris and Milan were all marked down by 1 per cent or more.

The picture was different in some of the smaller markets. The high flying Athens bourse pushed up to a seventh straight record high as a wave of money from private investors overwhelmed selling by institutions, content to book profits.

Nicosia recorded a third consecutive all-time high in record turnover. Analysts said that the deregulation of interest rates, and an expectation that deposit rates would fall, were helping to channel cash into equities.

Among industrial sectors, tyre stocks screeched ahead as news that Goodyear Tire & Rubber of the US was taking a 10 per cent stake in Sumitomo Rubber Industries of Japan raised hopes of further tie-ups.

Germany's Continental was a winner along with France's Michelin while in Italy, Pirelli also had better than expected preliminary results for 1998 to celebrate.

Meanwhile, a survey of 3,500 fund managers, brokers and analysts has fired a warning shot across the bows of the European bourses.

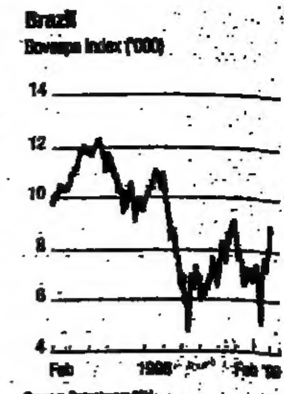
It warned that Europe's potential as a significant emerging force in global equities could be at risk without reform of financial information and corporate disclosure.

The Reuters European Larger Company Survey, conducted by Tempest Consultants, said that without significant reform, there was a considerable risk that Europe's equity markets would be "dressed in the clothes of imperfect competition."

The biggest risk was a migration of the fastest growing and most street wise European companies to more efficient stock markets around the world.

EMERGING MARKET FOCUS

Jury still out on Bovespa rally



Few people expected Francisco Lopes's reign as Brazil's central bank president to last less than three weeks and few in the markets expected the government to find a replacement like Arminio Fraga.

A hardened market professional with a solid background in international investing, Mr Fraga was for six years managing director at Soros Asset Management in New York.

The verdict was resounding: the Real, which had lost over a third of its value since January 13, began picking up the day before his appointment was made public.

Brazil's bonds have made up nearly all the ground they have lost on international secondary markets this year. However, equities remain stuck in the doldrums. The São Paulo market's Bovespa index has gained 30 per cent in local currency terms so far this year but it is down a thumping 22 per cent in dollars.

Although most financiers and traders were ecstatic at the choice of Mr Fraga, the Bovespa index actually dipped 1.8 per cent on Tuesday, when his appointment was announced.

Jane Heap, Latin American strategist at Deutsche Bank, said: "Volatility will persist. The new [central bank] will be viewed positively but the basic problem remains – the public debt and high interest rates."

She said the government needs to adopt "major fiscal reforms and speed up the release of IMF money though it can avoid hyperinflation or restructuring the [$222bn] domestic debt."

Even though the market has moved up 20 per cent in dollar terms since the beginning of last week, due to a stronger Real and an equity price rally, she says "it is too early to call this the turning point. We are waiting to see what comes next."

André Paes, investment analyst at BBA Capital, an asset management firm, agrees it is too early to be sure that the government can ram through further reforms to prevent more financial crises. "The mood has improved a lot. The market likes Fraga but there is still some doubt about the effectiveness of government economic policy."

He says investors "have to watch for any sign of improvement in policies. Brazilian companies are very cheap, compared even with other Latin American and emerging markets. Any reduction of risk is an opportunity to buy."

However, analysts say Brazil is still a dangerous market and advise even high risk investors accustomed to living dangerously in emerging markets to take care.

This explains why most of the trading in São Paulo is by local investors and why volumes are relatively thin. Foreign investors sold a net R$178m ($118.5m) in equities in January. They sold stocks worth R$2.76bn and bought R$2.59bn. In all of 1998 they pooled R$2.62bn out of Brazilian equities.

Ms Heap said: "For equity [investors], even for emerging market investors, it is too early to pile in with both feet."

John Barham

Dow climbs ahead of Fed rate decision

AMERICAS

Wall Street shrugged off a cautious morning to send leading shares higher in early afternoon trading, ahead of the Federal open market committee's announcement that interest rates would not be changing this month, *writes John Labate in New York.*

The breadth of the day's buying was focused on key stocks, with the number of advancing shares only slightly ahead of declining ones on the New York stock exchange. The main indices were higher, however, with the Dow Jones Industrial Average up 50.72 or 0.6 per cent at 9,324.84 and the Standard & Poor's 500 index climbing 4.29 to 1,266.28.

The Nasdaq composite index, weighted in high-tech shares, was 15.69 higher at 2,479.11. US bonds traded higher as well after the Treasury announced plans to auction $35bn in notes and bonds next week. By early afternoon, the benchmark 30-year bond was ¼ higher at 100$\frac{1}{32}$, sending the yield down to 5.229 per cent.

Among Dow stocks, Goodyear Tire and Rubber gained $1⅝ to $51⅞ after the company confirmed reports that it would enter an alliance with Sumitomo Rubber Industries of Japan. Boeing was also higher in early trading, gaining 1\frac{1}{16}$ to $35⅝.

Among declining stocks, Minnesota Mining & Manufacturing lost $2 to $73⅞ and Union Carbide fell $$\frac{13}{16}$ to $38⅜.

Online trading stocks were mixed, *with E*Trade down* 2\frac{1}{16}$ to 56\frac{1}{16}$ after the company confirmed it had experienced an outage for one and a quarter hours during the morning. A company spokesperson said the problem had been resolved soon after. Rival Ameritrade Holdings was up $11⅞ to 122\frac{1}{16}$.

Shares of Patriot American Hospitality were $$\frac{7}{16}$ or 8.6 per cent higher at $5½ after a report that the company was in talks with Hilton Hotels. Hilton was down $⅝ to $14¼.

In the brokerage sector Morgan Stanley Dean Witter was more than 4 per cent or 4\frac{1}{16}$ higher to 93⅞ on speculation that the company was in takeover talks with banker Chase Manhattan.

Perot Systems, the information technology company led by Ross Perot, gained $16¾ to $59 a day after its initial public offering at $16 a share.

TORONTO added to Tuesday's declines in early trading with a shakeout among gold stocks mostly dictating direction. The 300 composite index at noon was off 13.28 at 6,670.50 in below average volumes.

A soft start for the bullion price overshadowed golds and sector leaders pushed lower from the opening bell. Barrick fell 75 cents to C$29.15 and Placer Dome came off 35 cents at C$17.45.

Banks were mixed. Royal Bank of Canada shed 65 cents at C$78.35 and Bank of Nova Scotia 40 cents at C$32.50. Toronto-Dominion Bank, in contrast, improved C$1.15 to C$65 while Canadian Imperial added 15 cents at C$38.35.

Paper stocks made a weak start with Domtar off 15 *cents at C$8.85 and MacMillan*-Bloedel slipping 40 cents to C$14.90. In telecoms, BCE hardened 20 cents to C$65.70.

São Paulo gains pegged back despite firmer Real

SAO PAULO, hit by broad profit-taking on Tuesday, pared early gains in midsession trading.

Shares rose 1.3 per cent in the first hour, helped by a more stable Real and hopes for an early initiative from the new central bank president.

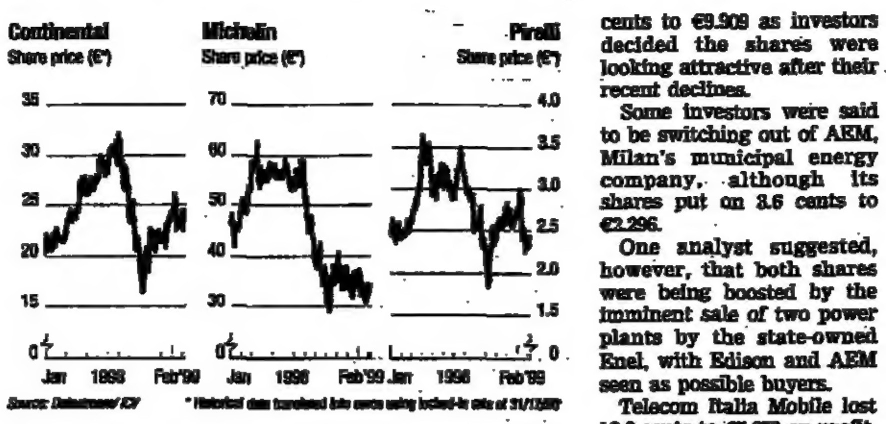
*However, economic con*cerns were quick to reassert themselves and at the end of the morning the benchmark Bovespa index was little changed, up 62 at 8,793.

CARACAS stayed nervous as investors continued to worry about corporate earnings following the recent weak results from Electricidad de Caracas. The IBC index was off 54.52 at 4,161.54 at midsession.

MEXICO CITY pushed *higher. Volumes were low* but the broad tone was upbeat and at midsession the IPC index was 51.94 or 1.3 per cent ahead at 4,066.52.

Dax slips on profit-taking

EUROPE



Shares in **FRANKFURT** met with profit-taking for the second day running and the Xetra Dax index ended at 5,090.07, down 74.88, and 78 points below the best level of the session.

The main story of the day was found outside the benchmark with Continental, number three in European tyres after Michelin and Pirelli, shooting higher on speculation that the group could be the next producer to forge an alliance.

The shares jumped to €26 in early trading, boosted by news of the Goodyear and Sumitomo link. They eventually settled at €24.50 at the close, up 8.1 per cent or €1.85.

HypoVereinsbank, hit lately by rumours of heavy write-downs, rallied strongly as investors reassessed their positions after the bank described the reports as ludicrous.

The FTSE Eurotop 300 index fell 15.54 or 1.27 per cent to 1209.16. **See Euro Prices page.**

An upgrade to "outperform" by Lehman Brothers also boosted sentiment. The stock rose €2.14 to €58.63.

Elsewhere in the banking sector, Deutsche Bank eased €1.39 to €47.96 amid talk it was in the running to bid for Allied Irish Banks in spite of currently completing the takeover of Bankers Trust of the US.

MAN continued to gain ground, boosted by merger talk and Tuesday's upgrade from Goldman Sachs. The shares rose €8.97 to €252. Preussag, which fell steeply on Tuesday following news of a €1bn rights issue, rallied, gaining €3 at €452.

AMSTERDAM ended 5.67 lower at 527.12 on the AEX *index after a session of nar*row trading where the main direction appeared to come from the options market.

ABN Amro stood out among financials, jumping 75 cents or 4.2 per cent to €18.45 in 20.2m shares traded. In contrast, Aegon lost €1.90 at €94.80 and ING fell €1.45 to €51.30.

Telecoms leader KPN shed €2.30 at €43.70 and foods and detergents giant Unilever gave up €1.60 at €64.60 for a two-day decline of almost 5 per cent.

PARIS stumbled after an early spell in positive territory. The CAC-40 closed 54.73 lower at 4,188.84 amid weakness on Wall Street and uncertainty surrounding US interest rates.

Automobile stocks were hit by fears that restructuring could pass the French market by. Peugeot, which reported healthy 1998 sales last week, was harmed by an unconfirmed report that it was planning provisions for its Argentine operation. The stock shed €10.60, or 7.4 per cent, to €133.60, while Renault lost €2.79 to €43.21.

Michelin put on €1.37 to €34.19 following news of the planned Goodyear/Sumitomo link-up. The rise surprised analysts who said the merger would intensify competition in Asia and Europe.

ZURICH edged back during a slow session that saw the SMI index recover from a low of 7,159.3 to close 32.1 easier at 7,193.

Cyclicals remained in the spotlight. ABB put on SFr19 to SFr1,699, adding to Tuesday's SFr90 surge as expecta*tions grew for a positive 1998 results statement today.* Société Générale said it was maintaining its hold rating on the stock because of the uncertain global economic outlook. However, it forecast net profit after minorities at ABB of $1.289bn, compared with $572m in 1997.

Rieter rose SFr37 to SFr840 after it said the group intended to buy back up to 100,000 of its shares.

A SFr45 jump to SFr824 in Swatch Group was attributed to positive press comment and some recent upbeat analysts reports.

SAir Group put on SFr3.50 to SFr312.50 in response to news that it had bought a 49 per cent stake in the French airline, AOM.

MILAN drifted into negative territory on a day lacking fresh ideas or a lead from Wall Street. The Mibtel index finished 227 lower at 23,490.

Pirelli was in focus on results and as the Goodyear-Sumitomo deal raised the sector's profile. The shares rose 10.8 cents to €2.49, off a high of €2.55, in response to Tuesday evening's better-than-expected preliminary 1998 results.

Private sector energy group Edison rallied 65.4 cents to €9.909 as investors decided the shares were looking attractive after their recent declines.

Some investors were said to be switching out of AEM, Milan's municipal energy company, although its shares put on 3.6 cents to €2.296.

One analyst suggested, however, that both shares were being boosted by the imminent sale of two power plants by the state-owned Enel, with Edison and AEM seen as possible buyers.

Telecom Italia Mobile lost 18.6 cents to €5.653 on profit-taking after recent gains.

MADRID shrugged off the gloomy mood to end slightly higher, with the general index up 0.5 to 880.60.

Banks suffered as investors cashed in on recent gains. Argentaria slipped 18 cents to €23.34, with Popular ending €1.20 lower at €82.75.

The building sector emerged broadly unscathed as news of the merger between Obrascon-Huarte and Construcciones Lain, announced on Tuesday, sunk in.

Obrascon was up 78 cents to €10.93, while Lain added 18 cents at €2.79. Rivals ACS, up 57 cents to €34.90, and Acciona, €1.75 higher to €59, benefited from the surge of interest in the industry.

Written and edited by Jeffrey Brown, Bertrand Benoit, Peter Hall and Mark Herlihy

Jo'burg drifts in quiet trade

SOUTH AFRICA

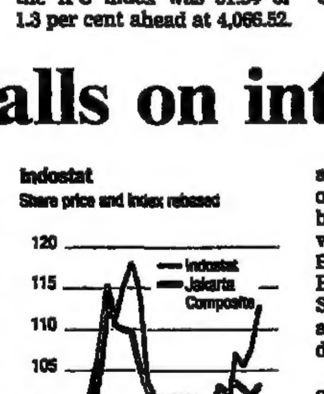
Shares in Johannesburg ended lower for the second *day running with activity* slack ahead of the monetary policy statement from the US Federal Reserve.

The all share index dipped 26.9 to 5,759.3, lifting gently off the day's lows in the final hour. Industrials lost 0.6 per cent at 6,660.7 and financials *ended little changed, down* 0.1 per cent at 8,997.4.

Weak bullion pushed the gold sector index down 1.7 per cent to 926.

Tokyo falls on interest rate fears

ASIA PACIFIC



Anxiety about the impact of rising interest rates and a strengthening yen drove **TOKYO** lower for the third day running, *writes Alexandra Harney.*

A surge in the yen-dollar rate to its highest levels in weeks and upward movement in the yield on government bonds sent a wave of caution through the market.

The Nikkei 225 average slid 188.52 or 1.3 per cent to close at 14,161.31. The Topix index of first-section stocks tumbled 16.58 or 1.5 per cent to 1,097.15, and the Nikkei 300 index lost 3.53 or 1.6 per cent to close at 218.14. Volume was thin at 303.9m shares with five shares declining for every one that closed higher.

Banking issues led the market in volume terms, on the back of investor concern that the rise in government bond yields would lower the value of financial institutions' bond holdings as the end of the fiscal year approached. The yield on the benchmark 10-year government bond surged to 2.33 per cent, following comments by the finance ministry that it planned to leave bond yields to market forces. The Bank of Tokyo Mitsubishi tumbled Y50 to Y1,310 and Fuji Bank lost Y16 to Y445. Sakura Bank topped the market in trading volume, closing down Y6 at Y263.

Exporters suffered due to the strengthening of the yen to Y111.75 to the dollar – the currency's strongest climb in three weeks.

In Osaka, the OSE slipped 181 points to 15,037.

BANGKOK moved lower for the fifth day running as worries about non-performing bank loans hardened after Bangkok Bank, Thailand's biggest bank, announced that they accounted for almost half of outstanding lending. The bank sector lost 3.3 per cent with Krung Thai down Bt0.50 at Bt14 and Bangkok Bank off Bt2 at Bt44.50. The SET index ended 9.01 down at 338.20 for a two-day decline of 5.8 per cent.

MANILA continued to gain ground, rising for the third day running on the composite index which added 32.09 or 1.6 per cent at 2,007.38. Brokers said selected blue chips led the rally. Telecoms giant PLDT rose 35 pesos to 960 pesos and the A shares in brewer San Miguel climbed 3 pesos or 6.1 per cent to 52.50 pesos.

JAKARTA was pulled along by a near 5 per cent jump in telecoms giant Indosat after it reported a leap in income.

The composite index closed 5.4 higher at 410.6 as Indosat, which announced a sharply higher than expected 82 per cent jump in net income for 1998, finished Rp525 higher at Rp11,725.

HONG KONG registered disappointment with results from the International Bank of Asia with a 82.87 slide in the Hang Seng index to 9,419.85. Turnover remained thin at HK$2.5bn.

International Bank of Asia lost 8 cents or 5.4 per cent at HK$1.40 after it said net profit last year plunged 80 per cent.

SEOUL ignored an upbeat report from the IMF praising the government for its structural reforms as the composite index slipped 13.95, or 2.5 per cent, to 553.33.

The narrowing spread between the futures market and the underlying cash stocks dashed hopes of an imminent turnaround and prompted sustained selling.

Samsung, Won2,800 lower to Won86,500, was among the main losers for the second day running as investors sold blue chips.

Korea Electric Power Corp shed Won950 to Won30,500 despite news that it expected record 1998 profits.

KUALA LUMPUR remained under fire as investors extended profit-taking across the board. The composite index closed 10.71, or 1.9 per cent, lower at 568.84.

There were speculations that the government was about to lift restrictions on capital flows, prompting international investors to pile up cash before pulling out.